

Alaska's foreclosure rates – at a 15-year high – are still much lower than the nation's

Housing experts across the nation are comparing current housing woes and foreclosure rates to those of the Great Depression. But you don't have to be an octogenarian to remember such hard times for the Alaska housing market. The recent spate of foreclosures in the national headlines may remind a few sourdoughs of the late 1980s bust in Alaska when jobs were slashed, entire residential blocks were turned over to the banks and more than 8 percent of the state's population fled to the Lower 48.

The national credit collapse will ripple through the Alaska economy in unpredictable ways, but despite weaknesses in other markets around the country, Alaska's housing market has so far

shown resilience compared to the nation as a whole by many indicators, particularly foreclosure rates. Alaska foreclosure rates have remained low compared to the nation's, owing to the health of the state's housing market and its economy as a whole.

The Alaska Department of Labor and Workforce and Development collects foreclosure data based on public records. An analysis of the numbers dating back to 1980 revealed that there were 1,131 foreclosures in Alaska in 2008, a 36 percent increase from 2007.

The increase in the number of foreclosures in 2008 was largely driven by the Anchorage and Palmer Recording Districts. (See Exhibit 1.) The Anchorage Recording District¹ had 458 foreclosures in 2008, 152 more foreclosures than in 2007. The Palmer Recording District² had 275 foreclosures in 2008, 88 more than 2007.

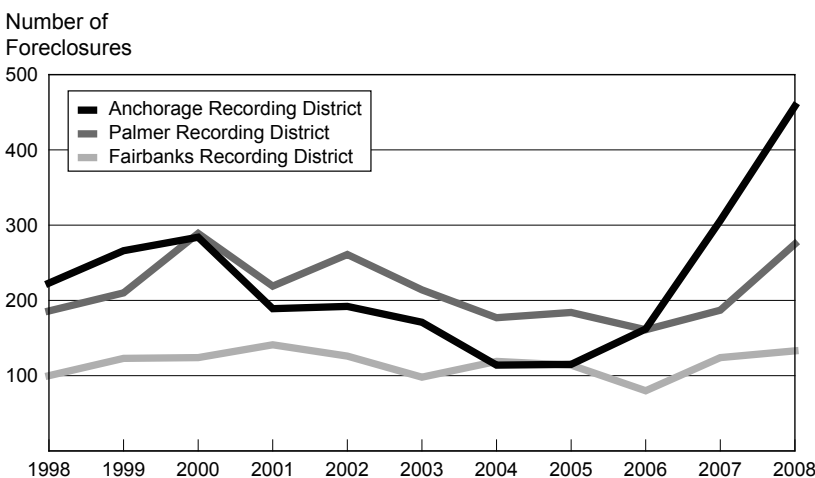
Outside Southcentral Alaska, the foreclosure picture is prettier. The Fairbanks Recording District³ had only nine more foreclosures in 2008 than the prior year. The Juneau Recording District had only one more foreclosure in

¹ The Anchorage Recording District encompasses the Municipality of Anchorage as well as Whittier and the west side of Cook Inlet. The Alaska Department of Natural Resources Recorder's Office uses recording districts for geographic designations. Recording districts don't correspond perfectly to boroughs and census areas. For more information about recording districts, go to the Recorder's Office Web site at dnr.alaska.gov/ssd/recoff/findYourDistrict.cfm.

² The Palmer Recording District includes the most populous areas of the Matanuska-Susitna Borough, but excludes the area north of Willow.

³ The Fairbanks Recording District includes the Fairbanks North Star Borough as well as much of the Yukon flats area and communities on the Alaska Highway.

1 Anchorage Leads in Foreclosures Palmer Recording District second-highest



Sources: Alaska Department of Natural Resources, Recorder's Office; Alaska Department of Labor and Workforce Development, Research and Analysis Section

2008 than it did the year before. The number of foreclosures fell in 2008 in the Kenai,⁴ Ketchikan and Kodiak Recording Districts.

A historical perspective

A review of historical data suggests that foreclosures in Alaska have been increasing in recent years. From 2006, the lowest year on record, to 2007, the number of foreclosures statewide grew 38 percent. From 2007 to 2008 foreclosures climbed another 36 percent to a 15-year high of 1,131.

While that's a considerable increase in just two years, it's relatively small compared to the spike in activity in the mid-1980s. (See Exhibit 2.) The number of foreclosures doubled between 1984 and 1985 and continued to swell over the next few years, ultimately reaching a record high in 1988 at 6,821 foreclosures.

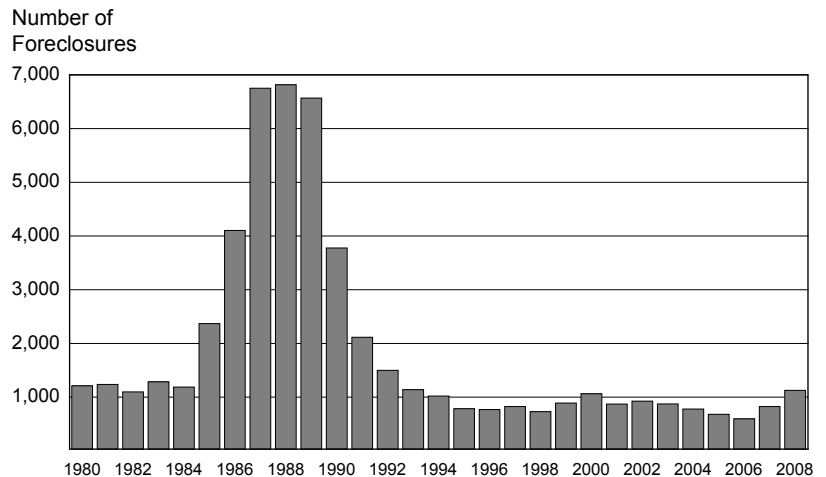
From 1980 to 1985, even amidst a national recession, Alaska's economy and population surged. (See Exhibit 3.) Driven by the same high oil prices that weighed heavily on the Lower 48 economy, jobs multiplied and wages soared in Alaska even as they fell in the rest of the country. (See Exhibit 4.)

State programs, in response to crippling interest rates and a national recession, subsidized interest rates and eliminated income requirements for mortgages. Alaskans were buying homes at a record pace despite rising prices and double-digit interest rates. (See Exhibit 5.) More than 36,000 homes were built in urban Alaska be-

Alaska Residential Foreclosures

A historical perspective, 1980 to 2008

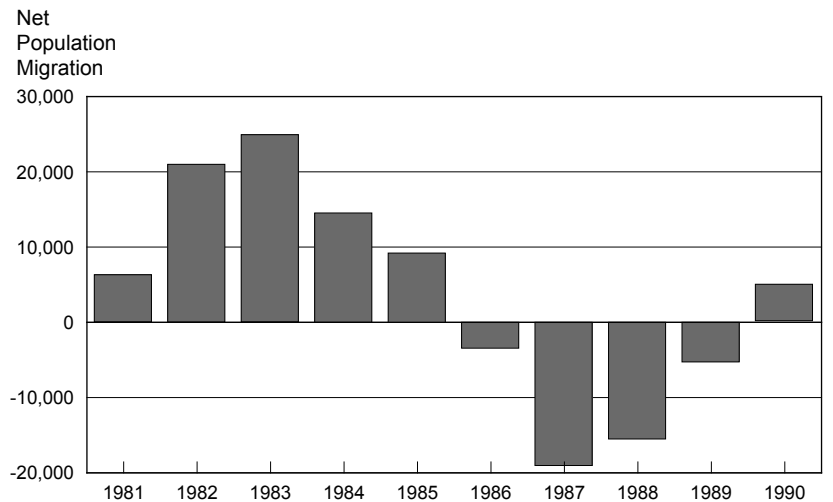
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Boom and Bust

Alaska's population, 1981 to 1990

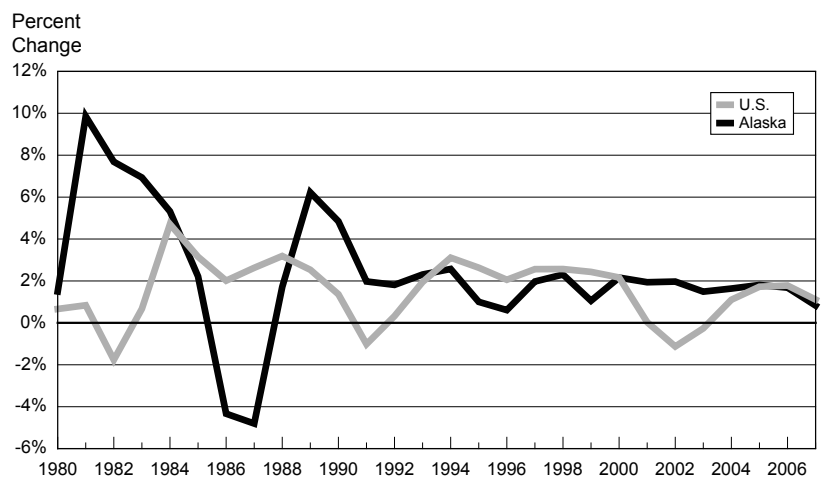
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Payroll Employment Growth

Alaska and U.S., 1980 to 2007

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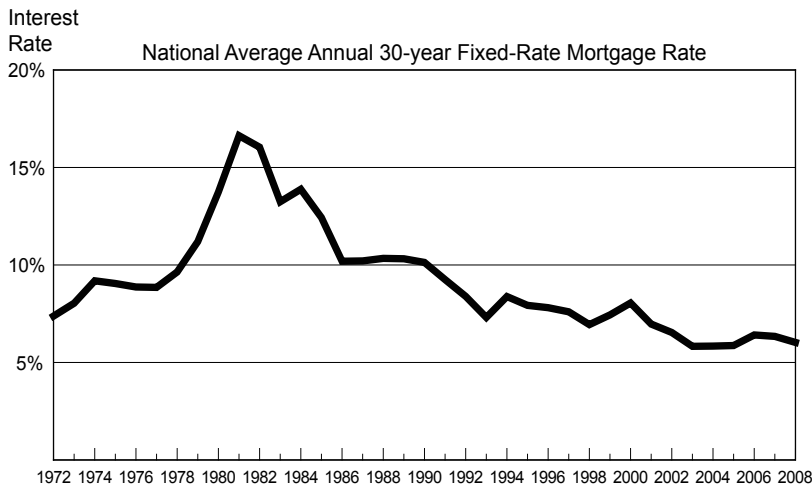
⁴ The Kenai Recording District includes Soldotna.

Sources for Exhibit 2:
Alaska Department of Natural Resources, Recorder's Office;
Alaska Department of Labor and Workforce Development,
Research and Analysis Section

Source for Exhibit 3:
Alaska Department of Labor and Workforce Development,
Research and Analysis Section, Demographics Unit

Sources for Exhibit 4:
U.S. Department of Labor, Bureau of Labor Statistics;
Alaska Department of Labor and Workforce Development,
Research and Analysis Section

5 Cost of Borrowing is Falling 1972 to 2008



tween 1980 and 1985 and prices still increased more than 50 percent during that period.

The tide began to change in 1985 when state government spending slowed. The price of oil took a nosedive in 1986 and the boom of the first half of the decade quickly turned into a bust. State spending had been a major component of the job growth of the first part of the decade, and when revenues declined, the state had no options but to cut jobs and reduce spending. (See Exhibit 6.) More than 20,000 public- and private-sector jobs were lost between 1986 and 1987.

The construction boom was suddenly a housing glut. By the end of 1987, there were 14,000 empty housing units in Anchorage alone. Many of the thousands of new homeowners hadn't had time to build equity on their homes and, when home prices plummeted, they found themselves with loan amounts that exceeded their property values.

There were more than 26,000 residential foreclosures filed during the last half of the decade. Rampant defaults resulted in lending institutions owning an unprecedented number of Alaska homes. Alaska Housing Finance Corporation alone held 2 percent of the state's total housing stock in its inventories by 1989. It took well into the 1990s for the housing market to stabilize.

It's possible that the lessons learned from the upheaval in the last part of the 1980s may have played a role in keeping Alaska's housing market out of the current national mire.

Better than the Lower 48

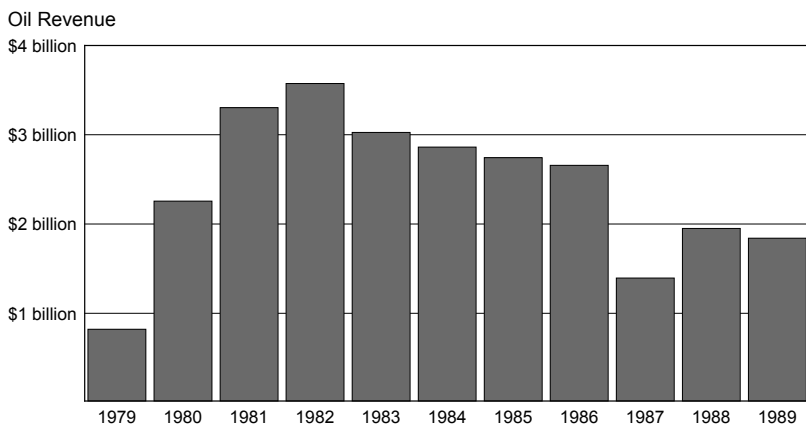
Speculative construction, no-limit home loans, purchasing frenzies and soaring prices are all

Source for Exhibit 5:
Freddie Mac Primary Mortgage Market Survey

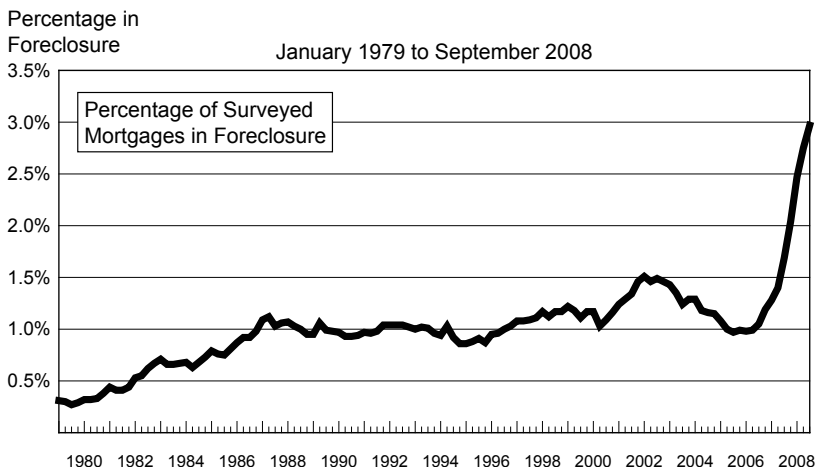
Source for Exhibit 6:
Alaska Department of Revenue, Tax Division

Source for Exhibit 7:
Mortgage Bankers Association, National Delinquency Survey

6 Oil Drives 1980's Economy Total state oil revenue, 1979 to 1989



7 U.S. Foreclosures at Record High National foreclosure rate, 1979 to 2008



Alaska Has Third-Lowest Foreclosure Rate

The 50 states and District of Columbia, third quarter 2008



Rank		Number of Loans Surveyed	Percentage of Surveyed Mortgages in Foreclosure	Rank		Number of Loans Surveyed	Percentage of Surveyed Mortgages in Foreclosure
1	Wyoming	69,556	0.63%	27	South Carolina	666,729	2.04%
2	North Dakota	61,249	0.86%	28	Colorado	1,018,557	2.06%
3	Alaska	93,537	0.88%	29	Pennsylvania	1,555,267	2.06%
4	Montana	138,143	0.91%	30	Mississippi	252,374	2.07%
5	Washington	1,202,022	1.19%	31	Delaware	171,250	2.10%
6	South Dakota	83,519	1.22%	32	Louisiana	477,784	2.10%
7	Oregon	640,723	1.31%	33	Oklahoma	429,356	2.12%
8	Arkansas	311,876	1.34%	34	Massachusetts	834,208	2.14%
9	North Carolina	1,414,518	1.35%	35	Maryland	1,075,841	2.15%
10	Utah	440,430	1.43%	36	Georgia	1,675,604	2.27%
11	Texas	3,113,776	1.43%	37	Kentucky	439,436	2.45%
12	Alabama	606,923	1.48%	38	New York	2,052,340	2.57%
13	Virginia	1,415,599	1.49%	39	Wisconsin	632,522	2.57%
14	Missouri	884,136	1.51%	40	Minnesota	909,129	2.74%
15	New Mexico	257,434	1.52%		U.S. Average	45,474,524	2.97%
16	Nebraska	208,275	1.55%	41	New Jersey	1,279,523	3.06%
17	Tennessee	862,243	1.58%	42	Rhode Island	140,324	3.18%
18	Idaho	263,310	1.62%	43	Maine	143,164	3.19%
19	West Virginia	134,103	1.63%	44	Illinois	1,771,111	3.45%
20	Vermont	62,649	1.64%	45	Michigan	1,481,827	3.53%
21	Kansas	332,581	1.64%	46	Indiana	857,971	3.59%
22	Hawaii	169,563	1.67%	47	Arizona	1,223,568	3.86%
23	New Hampshire	199,394	1.70%	48	California	5,871,693	3.90%
24	District of Columbia	95,447	1.77%	49	Ohio	1,519,449	3.93%
25	Connecticut	537,748	1.98%	50	Nevada	567,910	5.58%
26	Iowa	361,715	2.03%	51	Florida	3,565,944	7.32%

Source: Mortgage Bankers Association, National Delinquency Survey

characteristics of both the Alaska housing market in 1983 and the Lower 48 in 2005. Though each boom and bust was triggered by different events, the symptoms are similar.

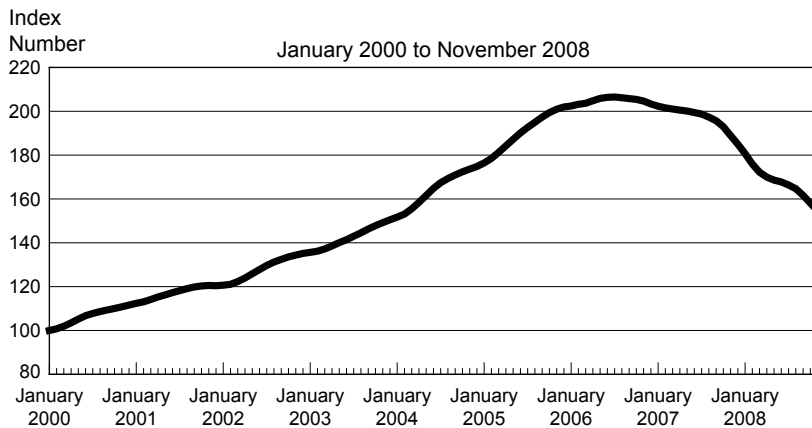
For instance, the national Mortgage Bankers Association foreclosure rate – reported as the percentage of total sampled mortgages that are in foreclosure status – shows that between the third quarter of 2005 and the third quarter of 2008, the foreclosure rate in the U.S. increased by more than 200 percent. (See Exhibit 7.)

Alaska, on the other hand, has the third-lowest foreclosure rate in the nation. (See Exhibit 8.) The relative unpopularity of higher-risk subprime mortgages, and adjustable-rate mortgages in particular, is the likely reason for Alaska's strong standing.

Because of that, Alaska subprime loans are dramatically outperforming subprime loans nationwide in terms of delinquency rates. In the third quarter of 2008, 10 percent of Alaska mortgages were subprime, while 12 percent of mortgages nationally were subprime. Only 5 percent of Alaska subprime loans were seriously delinquent – 90 days or more late on payment or in foreclosure – while 20 percent of total U.S. subprime loans fell into that category.

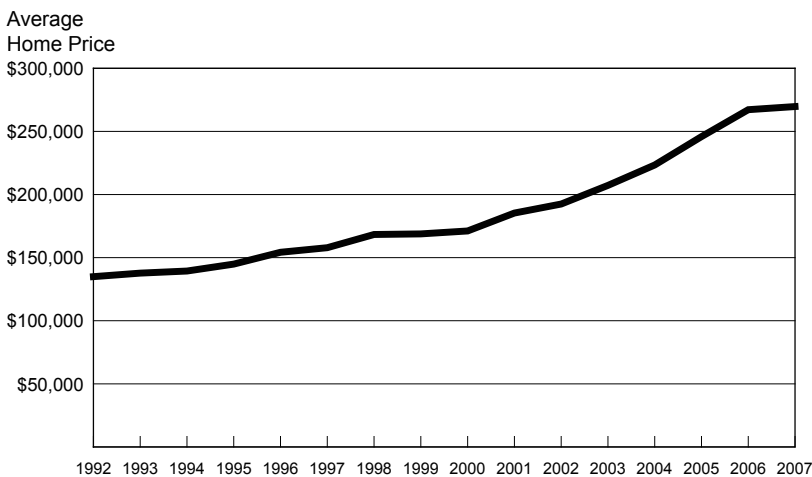
Alaska subprime loans were 2.4 times less likely to have an adjustable interest rate than the nation's. Adjustable rate mortgages are offered with low introductory interest rates but are adjusted after the initial period (usually from one to five years). When the interest rate resets at a higher rate and monthly mortgage payments increase accordingly, borrowers are

9 U.S. Home Prices Up and Down Case-Shiller Historical Home Price Index



Source: Standard & Poor's/Case-Shiller Historical Home Price Index

10 Home Prices Begin to Taper Off Single-family home prices, Alaska



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

sometimes unable to meet the additional burden of an often substantially higher monthly payment.

No boom, no bust?

The U.S. housing bubble was driven by many factors, one of which was speculation in the market. Real estate investors watched home values soar and invested accordingly. Eager buyers drove prices even higher as builders rushed to meet demand. (See Exhibit 9.) Despite that escalation, the real estate gold rush bypassed Alaska.

Alaska's average single-family home prices have increased modestly from the early 1990s through 2007, heating slightly between 2001 and 2006. (See Exhibit 10.) Data from the first three quarters of 2008 follow the historical trend, rising at a rate similar to 2007.

Alaska home prices are leveling – a somewhat positive development compared to a plague of plummeting prices in much of the Lower 48. Level to slightly rising prices will keep Alaska homeowners' heads above water on their mortgages, reducing the risk of foreclosure.

But not all Alaskans win when home prices remain high. Potential buyers, optimistic from hearing the news of falling prices elsewhere, will continue to find the dream of homeownership at arm's length if home prices maintain their upward trend.

What the future holds

Perhaps Alaska mortgage lenders and borrowers remembered the hard lessons learned in the 1980s, or Outside builders and investors didn't see a lucrative future in Alaska real estate. Whatever the reason, Alaska's housing market has so far escaped the fallout from the deflating national housing bubble.

Although 2008 was a 15-year record high for foreclosures, there were 115 fewer foreclosures in the fourth quarter than the third. (See Exhibit 11.) Foreclosures will likely continue to be higher than average through 2009, but it's possible that the worst is over.

Much depends on the health of Alaska's economy. A flat economy could sustain a healthy housing market, but significant job losses or falling wages could force foreclosure numbers even higher. Although short-term employment forecasts predict a modest decline in 2009, long-term projections suggest the state will regain a course of stable growth.

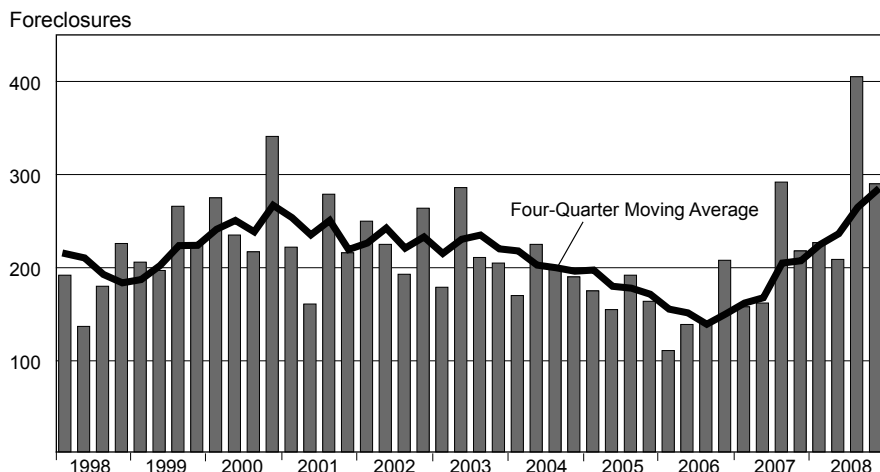
Despite the rosy comparisons to the national foreclosure crisis, more Alaskans lost their homes last year than any year since the recovery from the 1980's bust. A key difference between

current housing market conditions and the spike of defaults in the mid- to late-1980s is that Alaska's economy remains stable and the national economy is anemic.

In 1986, the national economy had recovered from a recession and seemed a hopeful place for financially troubled Alaskans. In contrast, Alaska homeowners who struggle to manage their mortgage today have even fewer choices Outside. Alaska may even be seen as a refuge for some of the victims of the serious economic contraction in many parts of the country.

Alaska's low foreclosure rates are a major factor in the relative health of the state's housing market and they play an indirect role in Alaska's overall economic well-being.

Foreclosures Up From 2006 Low **11** Foreclosures by quarter, Alaska



Sources: Alaska Department of Natural Resources, Recorder's Office; Alaska Department of Labor and Workforce Development, Research and Analysis Section