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Foreclosures in Alaska

How the state compares to the nation

The housing bubble and subsequent foreclosure crisis in the United States continues to hamper regional housing markets and broad economic recovery, but Alaska was one of the healthiest states in terms of mortgage delinquencies throughout the national collapse, and the state's housing market remains relatively stable. Though Alaska's housing market has cooled since 2006, the state had the third-lowest delinquency rate in the U.S. in the first quarter of 2012.

Alaska's economy was largely insulated from the problems that led to the national recession, keeping up a brisk clip through the first half of the decade as residential construction boomed, particularly in the Matanuska-Susitna Borough. But Alaska's accelerated building pace didn't have the same speculative fervor as many regions in the Lower 48, and it didn't result in the same level of over-building.

The state's lending practices were also much more conservative than the national average — a smaller percentage of mortgages in Alaska were subprime or adjustable rate, both indicators of increased default risk.

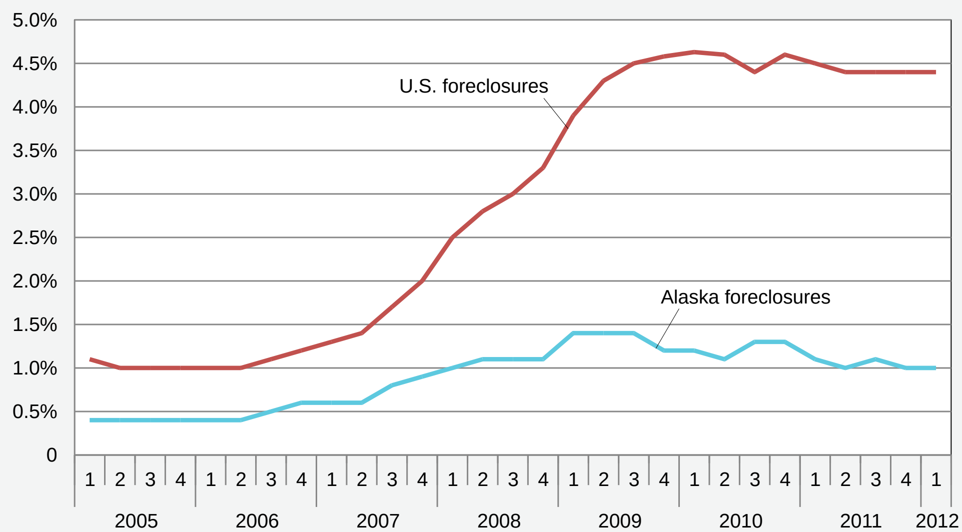
The national buildup

During the early 2000s, the housing bubble seemed like a path to prosperity for many Americans. After the dot-com bust in the late 1990s, housing seemed like a safer bet. Easy access to credit allowed subprime borrowers, perhaps with bad credit or without a verifiable repayment mechanism, to finance the American dream of home ownership — even if that was a dream they couldn't afford.

Lenders bundled, subdivided, and resold those risky mortgages to mega-players in the international finance market as high-yield financial instruments called mortgage-backed securities. Existing homeowners watched their net wealth skyrocket as home prices appreciated at an unprecedented rate. Residential builders were selling homes before the land had even been cleared. Realtors were flipping houses and taking big cuts. It seemed like everyone was making money.

The booming housing market started to deteriorate when the inventory of new housing swamped demand. When overstretched borrowers began to default on their loans, the collapse began in earnest. Foreclosures surged and housing prices plummeted, all while global financial institutions realized they'd been betting on bad hands. Many homeowners, even those who could make

1 U.S. vs. Alaska Foreclosure Rates
2005 to 2012



Source: Mortgage Bankers Association, National Delinquency Survey their monthly payments, found themselves underwater on their mortgages — owing more than their houses were now worth.

Regional housing markets across the country followed unique trajectories during the bubble and subsequent bust. Typically, high growth areas — especially within the Sunbelt — endured the worst of the bubble and market collapse. Some areas weren't affected until job losses prompted by the recession destabilized their regional economies and upset local housing markets.

Similarly, regional housing markets are recovering at different rates. Economic growth remains too tepid to encourage a quick recovery, but record low interest rates have encouraged a refinancing boom.

Housing affordability is also at a record high nationally, based on both low rates and home sales prices, but limited access to credit and general economic malaise make it difficult for many potential buyers to benefit.

Nationwide, home prices continue to be depressed, but are still higher than they were before the bubble in many regions. Although foreclosure starts have mostly stabilized, foreclosure inventories remain high in states whose foreclosure processes take longer to complete because they have to go through the courts. (Alaska, however, is not a judicial foreclosure state.) Overall, national foreclosure inventories remain about four times as high as in Alaska. (See Exhibit 1.)

The Alaska story

Alaska's housing market and foreclosure rates appear to be in good shape compared to the rest of the country. In the first quarter of 2012, only Wyoming and North Dakota had lower rates of "seriously delinquent" mortgages — those more than 90 days past due. Just 2.3 percent of Alaska home mortgages were seriously delinquent, in stark contrast to Florida at 17.9 percent, the highest rate in the U.S. (See Exhibit 2.)

But while contrasting Alaska's relative stability to the Lower 48's worst performers can be revealing, it only paints part of the picture. Between 2006 and 2010, the number of foreclosures in Alaska more than doubled, from 601 to 1,386. (See Exhibit 3.)

The increase was largely driven by a dramatic jump in Anchorage foreclosures and a less-dramatic increase in Mat-Su and the Interior, which includes Fairbanks. The number of foreclosures in the Gulf Coast, Southeast, Southwest, and North-

Lowest and Highest Delinquency States 2

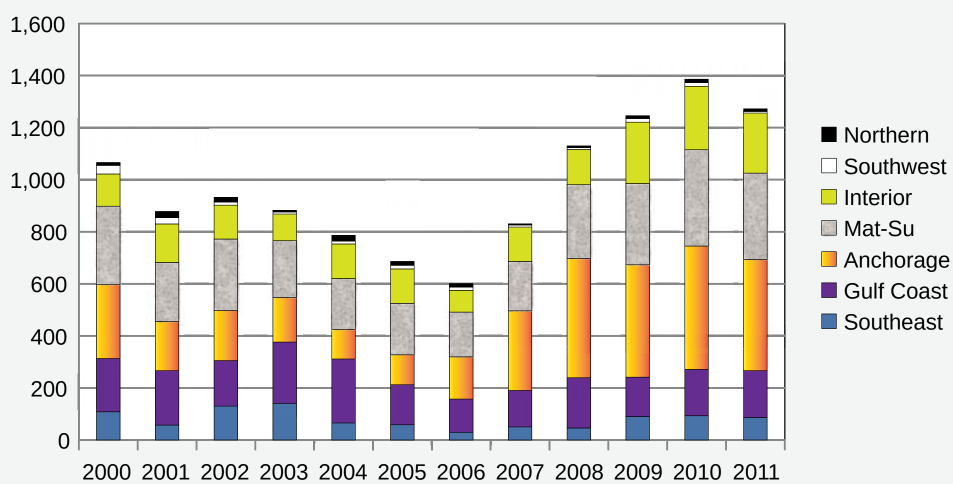
U.S. mortgages, first quarter of 2012

Lowest delinquency states	Delinquent mortgages	Highest delinquency states	Delinquent mortgages
North Dakota	1.80%	Florida	17.92%
Wyoming	2.26%	Nevada	12.63%
Alaska	2.27%	New Jersey	12.39%
South Dakota	2.66%	Illinois	10.57%
Nebraska	3.00%	New York	9.26%
Montana	3.03%	Maryland	8.64%
Colorado	3.91%	Maine	8.60%
Virginia	4.03%	Ohio	8.22%
Minnesota	4.20%	Connecticut	7.93%
West Virginia	4.22%	Indiana	7.79%

Source: Mortgage Bankers Association National Delinquency Survey

Total Number of Foreclosures 3

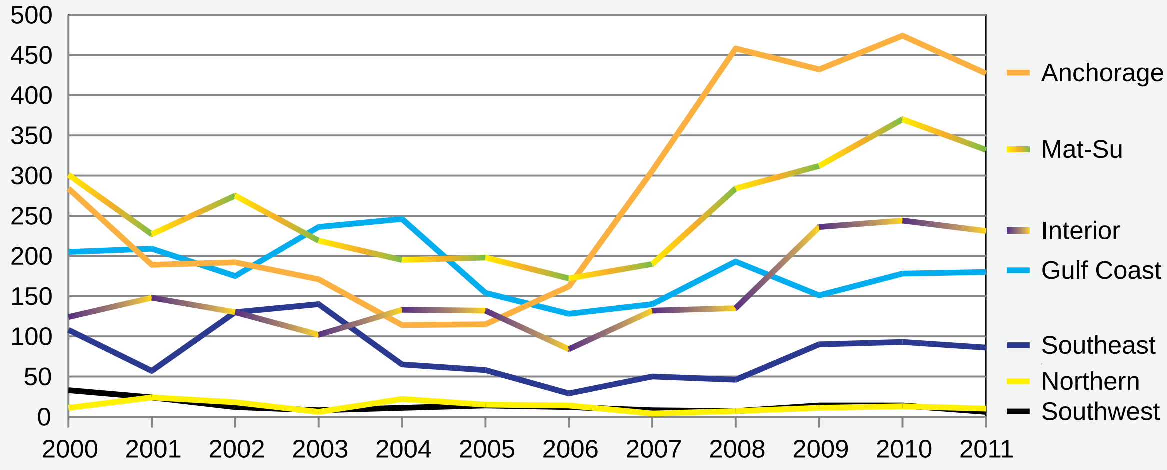
Alaska, 2000 to 2011



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

4 Anchorage Led the State in Foreclosures

Alaska regions, 2000 to 2011



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

ern regions remained mostly stable between 2000 and 2011. (See Exhibit 4.)

The increase in Anchorage, and to some extent in Mat-Su and Fairbanks, was due to many of the same factors that caused the foreclosure spike in the rest of the country. Although subprime and adjustable rate mortgages weren't as prevalent in Alaska as they were in the rest of the U.S., they do exist in the state and have higher delinquency rates than conventional mortgages. A weak Alaska job market in 2009 didn't help matters.

Alaskans' appetite for buying homes diminished during the recession, which officially ended in 2009, but had begun falling a few years earlier. After reaching a peak in 2006, total loan volume for single-family homes and condominiums dropped in 2007 and remained below that level through 2011. New housing construction fell during the same period.

Swings in home value indexes

Alaska's home sales prices, when adjusted for inflation, have fallen slightly statewide. According to the Federal Housing Finance Authority housing price index, Alaska's index value has been up and down since 2008. (See Exhibit 5.)

Alaska's index value has been relatively stable compared to many other states, though. Nevada is an example of a state with an extreme swing between positive and negative home price changes. Nevada had a remarkable housing boom during the first half of the decade, but houses were built faster than they could be sold — especially when credit tightened.

Nevada's price index, which hit its peak in 2004, was increasing faster than 30 percent per year. The growth slowed until 2006, when prices started to drop and Nevada's housing market went from bad to worse quickly. The free fall accelerated until late 2008, when prices were 32 percent below the previous year's levels. Nevada's home price index value has not increased over-the-year since 2006, although it's currently dropping at a slower rate.

The state of Washington's trajectory was less dramatic than Nevada's. For one, the FHFA home price index never climbed as quickly as it did for its southwest neighbor. Compared to Nevada, prices accelerated later and less dramatically. The highest year-over-year change in the index was in 2006, nearly two years after Nevada's peaked. Washington's prices started falling in 2008, which was more in line with the national average.

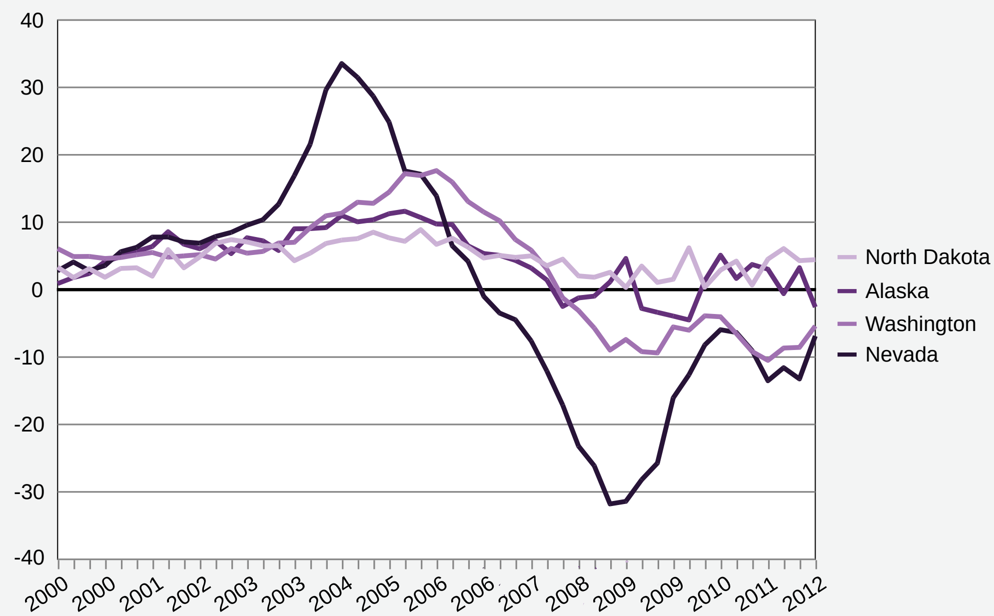
In contrast, North Dakota's housing market was barely touched by the crisis. The shale oil fracking boom was largely responsible for the state's growth throughout the national recession. North

Dakota is a small state and its index value is more volatile than larger states, but its year-to-year change has not dropped below zero in the past 12 years. In many ways, North Dakota is reminiscent of Alaska during the early-1980s recession, when high oil prices helped Alaska boom.

Alaska's FHFA index value tracked closely to the national average in the first half of the decade, but while the national index value dropped in 2007 and continued to fall into the first quarter of 2012, Alaska's value has only fallen below the prior year's value in about half of the 18 quarters since 2008. The year-to-year change in Alaska's rate is volatile from quarter to quarter, but the change in the index seems to paint a reasonable picture of Alaska's flat home prices.

With steady home prices and falling foreclosure rates, Alaska's housing market isn't getting any worse, but Alaskans also aren't building or buying houses like we used to. This is likely a "new normal" for the state, especially with tighter credit conditions and a renewed sense of conservative borrowing.

Change in Housing Price Indexes **5**
Select states, 2000 to 2012



Source: Federal Housing Finance Agency, Home Price Index