TORRENTIAL DOWNPOUR

by Steve Brown

It's raining here in San Francisco this morning, which is why we are probably feeling sort of sluggish (we are sure it has nothing to do with the fact that we are writing this at 4:30am PT). Other than the rain, however, what caught our eye this morning, has to do with foreclosures in the housing sector and the ongoing impact on community bankers with construction lending exposures.

The latest data from research firm RealtyTrac is eye opening. As of February, a total of almost 224k homes had received at least one notice from lenders last month about their overdue payment, a 60% jump from the same month last year. The month also marked the 26th straight one with an increase in foreclosure activity. For the country as a whole, the foreclosure rate for the month reached one in every 557 homes.

Just for fun, we decided to do some quick math to try to look at this situation from a different angle. To begin, let's assume you are the driver that adheres to the 25 mile per hour limitation in the neighborhood. That means in one hour you would travel 132,000 feet. Assuming each home sits on a parcel of land that stretches 100 feet to the next property line, in an hour a car would pass roughly 1,320 homes. As we can see from above, given 557 homes in foreclosure, your car would drive past about 1 home in foreclosure for every 30 minutes driven around the neighborhood. Not great, but probably not all that shocking either given the current depressed housing situation.

Now let's break down the situation by state. Overall, NV came in #1, with one home in foreclosure out of every 165. In that state alone, foreclosure notifications jumped 68% from the same period last year. In our example above, if you were to drive your car in a NV neighborhood you would pass almost 8 homes every hour or about 4 homes every 30 minutes. Meanwhile, the top metro area was Cape Coral-Fort Myers, FL, with one in every 84 households receiving a foreclosure notice. Finally, states that rounded out the rest of the top 10 (in order) were CA (1 in every 242), FL, AZ, CO, MI, OH, GA, IN and TN.

What else can we glean from the data provided? Unfortunately for banks, the number of foreclosed properties that did not sell at auction and ended having to be returned to the bank increased 110% during the month, when compared to the same period last year. Looking at it by county, consider that some of the highest saw unsold home levels soar as much as 2000%, when compared to the same period the prior year (i.e. Riverside, CA had 65 homes go unsold in February 2007, compared to 1,346 in February 2008). Analysts indicate heavy speculator activity in the area in prior years, lower home values and a lack of buyers has driven most of this aggressive retrenchment.

The bottom line is that homeowners across the country are struggling to make their payments. With $640B in loans waiting to reset through this year (and the peak hitting in May/June), consumer spending, GDP and construction activity will certainly be hit hard in coming months. Community bankers with construction exposures should continually test and retest to make sure projects remain strong enough to weather the downpour. Despite the actions of the FRB as of late, there is no denying things still look as though they will remain pretty bleak in the housing sector through at least the rest of this year.

BANK NEWS

Fake Bank

The TX Dept. of Banking issued a C&D against Houston Petroleum Bank, which has the catchy motto Ã¢Â€" "Customer Deposits are Never at Risk." Sadly, deposits are at risk because Houston Petroleum is not actually a bank.

C&D

It was made public that Westsound Bank ($489mm, WA) is under a C&D due to management, credit quality and earnings. The order requires stronger lending practices and a new CEO. Dave Johnson resigned as CEO last week.

Branch Sales

Wachovia has replaced its exclusive relationship for branch sales with another similar relationship. Going forward it will use American Capital Realty Trust LLC, as it works to sell 100+ branches this year.

Closing Branches

A new study finds a wide divide by age in how people access their banking institution. While only 17% of people aged 34 or younger use a branch, the number is 47% for those aged 55 or older. Doing some quick math, the banking industry will have to close or sell roughly 64k branches over the next 20Ys or roughly 3k branches per year if this trend holds. Over the next 20Ys, banks will likely close 67% of their branches, as the world becomes more mobile and remote access grows. Our analysis indicates that even today, 20% of branches provide less than a 10% return, so this is something banks should consider as part of an ongoing strategy.