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Mortgage defaults soar to record 13%

In the second quarter, the number of homeowners behind on payments or in foreclosure rose along with the jobless rate, with California among states leading the way.

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August 21, 2009

Widespread joblessness is causing more Americans to fall behind on their house payments, triggering a new round of foreclosures that some analysts fear could delay the nation's economic recovery.

A mortgage trade group reported Thursday that more than 13% of the nation's mortgage holders were delinquent on their mortgages or in the process of having their homes repossessed during the second quarter of this year. That's the highest figure since tracking began in 1972. California's rate, 15.2%, was among the highest of all states.

The numbers underscore a worrisome trend. A spate of foreclosures -- which began with speculators who walked away from their souring investments, then spread to high-risk borrowers who couldn't make their payments when their low-interest mortgages reset -- is now hitting unemployed homeowners with good credit scores, clean financial histories and conventional home loans.

The U.S. has shed 6.7 million jobs since the recession began, employment losses that have left even high-quality borrowers struggling. One in three new foreclosures from April to June was from a prime, fixed-rate loan, up from 1 in 5 a year earlier.

The rising tide of foreclosures could swamp positive economic trends such as improving home sales and a surprise increase in U.S. regional manufacturing, also reported Thursday.

"The broadening of the foreclosure crisis to include prime loans due to high and rising unemployment will delay a bottom in the housing market and threatens the economic recovery," said Mark Zandi, co-founder and chief economist of Moody's Economy.com.

It's also a huge challenge to the Obama administration, which is pressuring banks to restructure troubled mortgages to keep borrowers in their homes. Such modifications are difficult to achieve when a family's income is slashed. The Washington-based Mortgage Bankers Assn. predicts that U.S. job losses will continue at least until the middle of 2010, meaning that mortgage delinquencies and repossessed homes will almost certainly continue rising.

"We would expect delinquencies and foreclosures to peak sometime after that, probably at the end of next year," said Jay Brinkmann, the trade group's chief economist.

The U.S. jobless rate in July was 9.4%, down slightly from 9.5% in June, a 26-year high. California's June unemployment rate was 11.6%. July figures will be released today.

The employment troubles are compounding a messy situation for banks. Faced with a burgeoning backlog of problem loans, loan-servicing giants such as Bank of America Corp. and Wells Fargo & Co. have gotten off to a slow start on the Obama administration's Home Affordable Modification program, recently released government statistics show.

Anxious borrowers who have contacted The Times complain that lenders lose their documents, pass them from employee to employee and make them endure unexplained delays.

They include Janet and Stan Hurwitz, who said they enjoyed pristine credit and good salaries before this recession turned their financial world upside down. Both now unemployed, they're worried about exhausting their savings and losing their spacious Porter Ranch home.

Stan, 58, lost his job as an apparel sales representative in May and has pursued dozens of leads without success. Janet, a 53-year-old commercial pilot, has been unable to find work in the battered airline industry since returning from disability last summer.

The couple have pared expenses drastically and are trying to refinance their 6.25% mortgage to reduce their \$2,789-a-month payment. But the Hurwitzes say that the mounds of paperwork

they have sent out -- to Bank of America, two government-sponsored home retention plans, credit and debt consolidation agencies and several elected officials -- seem to have disappeared into a black hole.

"No matter what you send in, or where, it just disappears," Stan Hurwitz said.

After The Times contacted Bank of America on Thursday about the case, the bank issued a statement saying it "has reached out to the Hurwitzes to apologize for their experience and to ensure they have a single point of contact to help them through these challenging times."

"Despite our best efforts, there are limits to how far modification programs can go," the Bank of America statement said. With unemployment rates so high, "even the most ambitious modification plan will not help when the homeowner has no income or prospects."

The bank said unemployment benefits count as income under the Obama plan as long as they continue for nine months, adding that it is working with the government "to find solutions for at-risk homeowners who fall outside the eligibility requirements of the current program as well as the growing number of customers now unemployed."

The mortgage bankers group said efforts to aid distressed borrowers, such as the Obama administration's housing affordability program, are providing some relief but are not addressing all the problems.

"While the various loan modification programs continue to have an impact on holding foreclosure rates below where they otherwise would be, the issue is that many of the foreclosures involve homes that are vacant, borrowers who no longer have jobs, or loans where there was fraud involved," Brinkmann said.

Another problem plaguing California and other hard-hit areas is the unprecedented decline in home prices. Falling values have left homeowners who purchased at the peak of the housing boom "underwater," owing far more than their homes are worth. Even drastically reducing interest rates and paying borrowers bonuses to stay in their homes can have little lasting effect if it will be years before homeowner equity is restored, Economy.com's Zandi noted.

"The idea [of the Obama plan] is to give homeowners a break so they can get through the recession and the falling housing market and, hopefully somewhere down the road, make full payments again," Zandi said. "That's going to be helpful, but as long as foreclosures keep rising and home prices keep falling, a lot of houses will be so far underwater that it makes no sense to

bother modifying them -- from the lender's perspective and from the borrower's."

He said the Obama administration might reach its goal of having lenders offer 3.5 million to 4 million loan modifications -- restructurings that lower rates, extend the time for borrowers to repay what they owe and, in some cases, suspend interest payments on part of the loan balance. But Economy .com is projecting that only half of those offers will result in actual modifications, "and they'll be lucky if they get 1 million successful modifications out of that," Zandi said.

If the problem worsens, the government and lenders may have to revisit some ideas that so far have proved untenable, such as finding a way to reduce the principal owed on large numbers of loans, he added.

The problems are especially thorny in California, Zandi noted, because unemployment is higher and home prices have fallen more than in most states.

Still, he said, the Golden State should recover sooner than other hard-hit states including Nevada, Florida and Michigan because its economy is more diversified. Already, he noted, there are signs of stabilizing prices in areas such as San Francisco and Orange County, as buyers step in on the belief that California's notoriously up-and-down housing market will eventually stage one of its famous recoveries.

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