November 20, 2009
This is the print preview: Back to normal view »

Foreclosures: Prime Borrowers Are The Latest Victims

ALAN ZIBEL | 11/19/09 06:10 PM | AP

What's Your Reaction?

WASHINGTON — The foreclosure crisis likely will persist well into next year as high unemployment pushes more people out of homes, pulls down housing prices and raises concerns about the broader economic recovery.

The latest evidence was a report Thursday that a rising proportion of fixed-rate home loans made to people with good credit are sinking into foreclosure. That's a shift from last year, when riskier subprime loans drove the housing crisis.

The report from the Mortgage Bankers Association also found that 14 percent of homeowners with a mortgage were either behind on payments or in foreclosure at the end of September. It was a record-high figure for the ninth straight quarter.

The data suggest the housing market and the broader recovery will remain under pressure from the surge in home-loan defaults, especially as unemployment keeps rising. Lost jobs are the main reason homeowners are falling behind on their mortgages.

After three years of plunging prices, the housing market started to rebound this summer. That lifted hopes for the overall economy. But analysts say there are too many foreclosed homes that have yet to be dumped on the market and expect further price declines.

Among states, the worst damage is still concentrated in the states hardest hit from the start: Florida, Nevada, California and Arizona. Together, they accounted for 43 percent of new foreclosures.

One in four mortgages in Florida were either past due or in foreclosure, the most in the U.S. Nevada was close behind at 23 percent.

"There's no indication in this data that foreclosures are going to abate anytime soon," said Mark Zandi, chief economist at Moody's Economy.com, who projects that nationwide home prices will fall up to 10 percent before bottoming next fall.

Story continues below

Driven by rising unemployment, prime fixed-rate loans to borrowers with good credit accounted for nearly 33 percent of new foreclosures last quarter. That compares with 21 percent a year ago.

Many laid-off homeowners might be able to survive on their savings for a while, but "the longer the economic situation stays in place, the less likely they are to hold on," said Jay Brinkmann, chief economist at the Mortgage Bankers Association.

In markets where foreclosures already are high and still rising, prices likely will remain soft. That will cause developers to keep their bulldozers idle and prevent the industry from making a big contribution to the economy's recovery.

"Builders only start homes when they can make money," said John Burns, an Irvine, Calif.-based real estate consultant. "In a lot of areas, until prices go back up, construction doesn't make any sense."

The crisis has struck people like Betty Wilson of San Diego. She was laid off a year ago from her job at an insurance company.

Since then, Wilson has managed to pay her $1,090 mortgage bill from collecting unemployment benefits, renting out a room and dipping into savings. But money is running low. She fears she won't make her payment for December.

Wilson, 56, said she has tried to get her mortgage company, GMAC Mortgage, to lower her 6.25 percent interest rate or give her a temporary break from payments. Many mortgage companies will let a borrower skip up to six months of payments, though they require that the money be paid back eventually.

After The Associated Press inquired about her case, a GMAC spokeswoman said Thursday that the company would offer Wilson reduced payments for four months, "while we continue to review her financials for a permanent solution."

After a typical recession, foreclosures peak about six months after the unemployment rate does. But the process could take longer this time, in part because loan-modification programs and new state laws have prolonged the process. Unemployment, now at 10.2 percent, isn't expected to peak until next spring or summer.

Another unknown is the effectiveness of the Obama administration plan to attack the foreclosure crisis. As of last month, about 20 percent of eligible borrowers, or more than 650,000 people, had signed up. But most of those enrolled have been chosen for trials lasting up to five months.

About 4 million homeowners were either in foreclosure or at least three months behind on their mortgage payments as of September, according to the mortgage bankers group. Even if some of them manage to stay in their homes, the market is likely to absorb a wave of new foreclosures. Those properties are concentrated in states like Florida and other already beleaguered areas.

Subprime loans with adjustable rates have fallen to 16 percent of new foreclosures, from 35 percent a year earlier. Loans backed by the Federal Housing Administration also show rising signs of trouble. More than 18 percent of FHA borrowers are at least one payment behind or in foreclosure.

The Mortgage Bankers Association's quarterly survey of 44.6 million loans is considered the most authoritative report on mortgage delinquencies. A separate report, issued monthly by foreclosure listing service RealtyTrac Inc., is based on courthouse filings.