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Foreclosures break another record in first quarter

Mortgage defaults won't slow until employment improves: MBA economist
By Amy Hoak, MarketWatch

CHICAGO (MarketWatch) -- A record percentage of U.S. mortgages entered foreclosure in the first quarter, and the jump in foreclosure starts compared with the fourth quarter was the biggest leap ever recorded in the Mortgage Bankers Association's survey, released on Thursday.

According to the MBA's quarterly National Delinquency Survey, 1.37% of mortgages entered the foreclosure process in the first quarter, up from 1.08% in the fourth quarter.

Maryland millionaires move out Maryland's millionaire surtax isn't working. Steve Moore explains.
(May 26)

Total foreclosure inventory was also up, with 3.85% of all mortgages somewhere in the foreclosure process at the end of the first quarter, compared with 3.3% in the fourth quarter -- also a record jump. The delinquency rate, which includes loans that are at least one payment past due but not those in foreclosure, was a seasonally adjusted 9.12%, up from 7.88% in the fourth quarter.

The Washington-based MBA survey covers 45 million mortgages, representing between 80% and 85% of all first-lien residential mortgages outstanding in the United States.

"The increase in the foreclosure number is sobering but not unexpected. The rate of foreclosure starts remained essentially flat for the last three quarters of 2008 and we suspected that the numbers were artificially low due to various state and local moratoria, the Fannie Mae and Freddie Mac halt on foreclosures, and various company-level moratoria," said Jay Brinkmann, MBA's chief economist.

"Now that the guidelines of the administration's loan modification programs are known, combined with the large number of vacant homes with past due mortgages, the pace of foreclosures has stepped up considerably," he added, in a news release.

Until the country's employment situation improves, it's not likely that the level of mortgage defaults will begin to fall, Brinkmann added.

"MBA's forecast, a view now shared by the Federal Reserve and others, is that the unemployment rate will not hit its peak until mid-2010. Since changes in mortgage performance lag changes in the level of employment, it is unlikely we will see much of an improvement until after that," he said.

If the peak of unemployment doesn't hit until the middle of next year, it won't be until the end of 2010 or early 2011 that the foreclosure picture could improve, Brinkmann said in a telephone interview. But that timing also hinges on the local pictures in states including California and Florida, which have had an "oversized role" in the increase in foreclosures; the sooner things improve in some of the worst states, the sooner the national numbers could also start to look better. "If you

work through the foreclosure numbers there... you may still see the national numbers come down," he said.

Some things change, some stay the same

While subprime, option ARM and Alt-A loans were a focus of the foreclosure problem initially, the foreclosure rate on prime fixed-rate loans has doubled in the last year.

"For the first time since the rapid growth of subprime lending, prime fixed-rate loans now represent the largest share of new foreclosures," Brinkmann said in the release -- evidence, he added, of the impact that the recession and drops in employment are having on the foreclosure numbers.

In some respects, these prime-loan defaults are the most difficult for lenders to address because they often indicate the loss of a job, he said. Even with a mortgage modification or refinance, borrowers might not have sufficient funds to pay their bills.

"The best course of action is for the mortgage companies to work out some type of forbearance with homeowners in light of the glut of vacant houses on the market and with the hope that homeowners obtain employment in the near future," said Joseph Capobianco, a partner at the law firm Reisman, Peirez and Reisman in Garden City, N.Y., who is knowledgeable on bankruptcy issues.

Although more foreclosures are now due to prime mortgage defaults, in some ways the first quarter's foreclosure picture looks the same as it has in previous quarters.

"It was actually surprising to me how same the story was," Brinkmann said in the telephone interview. Just as they have in previous quarters, California, Florida, Arizona and Nevada are driving up national numbers, accounting for 46% of the foreclosure starts in the country in the first quarter.

Foreclosure actions were started on 3.4% of mortgages in Nevada, 2.8% of the mortgages in Florida, 2.5% of the mortgages in Arizona and 2.2% of the loans in California. By comparison, foreclosure actions were started on 1.5% of mortgages in Michigan and Illinois, and 1.3% of mortgages in Indiana and Ohio.

At the end of the first quarter, 10.6% of mortgages in Florida were somewhere in the foreclosure process, followed by 7.8% of mortgages in Nevada, 5.6% of mortgages in Arizona and 5.2% of mortgages in California, according to MBA statistics.

The effect of government help

It's difficult to determine how much of an effect the Obama administration's current plan to reduce foreclosures could have on the numbers, Brinkmann said. The Making Home Affordable program was announced during the first quarter.

"Just because the numbers go up, it isn't that the plan is not working," he said. Foreclosures may have been higher without the plan, he added.

That said, there are properties out there that don't qualify for the plan, he said, referring to mortgages that are drastically underwater, meaning that the mortgage is much higher than the home is currently worth.

"Prices have fallen, people are stepping in and buying homes at current prices. But there is no indication that it's setting much of a floor under prices," he said. "As long as prices stay at these levels, a number of people stay underwater."

Those who are underwater, in particular, are vulnerable to foreclosure when faced with events such as a job loss or divorce, he said.

It's essential to get rid of the foreclosure inventory so that home prices can find a bottom, said Daniel Penrod, industry analyst for the California and Nevada Credit Union Leagues. When faced with a choice between a home that is being sold by a homeowner and a foreclosure that needs some work, many buyers "are looking at that and saying 'I'm going to do the work and save a lot of money,'" he said.

"I think we are going to continue to see foreclosures coming on the market at a fairly sizable clip," Penrod said. Still, there is some pent-up foreclosure supply yet to hit the market. "There are a lot of institutions that held on to foreclosures, waiting for the bottom. Unfortunately, the quicker the foreclosures can get into the market, the better."

Advice for borrowers nearing default

Capobianco, of Reisman, Peirez and Reisman, said that those facing foreclosure should be proactive in thinking about their mortgages, and offers these tips:

-Determine what realistic amount, if any, you can pay each month towards your mortgage

-Determine the comparable values of homes in your neighborhood

-Determine realistically when you can resume the payments called for in the mortgage

-Approach the mortgagee with a plan based on what you can afford, deferring or reducing the payments for a period of time

-Sell the mortgagee on the benefits of your plan