

Foreclosures hit all-time high

Over 900,000 borrowers are losing their homes, up 71% from a year ago, and a record number of home owners are behind on payments.

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NEW YORK (CNNMoney.com) -- More home owners than ever are losing the battle to make their monthly mortgage payments.

Over 900,000 households are in the foreclosure process, up 71% from a year ago, according to a survey by the Mortgage Bankers Association. That figure represents 2.04% of all mortgages, the highest rate in the report's quarterly, 36-year history.

Another 381,000 households, or 0.83% of borrowers, saw the foreclosure process started during the quarter, which was also a record.

Additionally, the number of mortgage borrowers who were over 30 days late on a payment in the last three months of 2007 is at its highest rate since 1985.

"Boy, that was ugly," said Jared Bernstein, an Economic Policy Institute economist of the data.

"It's another reminder that anyone who thought we had hit bottom was wrong. This was a huge bubble, and when a bubble of this magnitude breaks, it creates a huge mess," he said. "It could take a lot longer for the correction to work through the system."

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One reason it may take so long is that there seems to be no end in sight for falling home prices.

"Declining prices are clearly the driving factor behind foreclosures, but the reasons and magnitude of the declines differ from state to state," said Doug Duncan, MBA's Chief Economist said in a prepared statement.

The foreclosure rates for prime and subprime adjustable rate mortgages both more than doubled compared with a year ago, from 0.41% for prime ARMs to 1.06% and from 2.70% for subprime ARMs to 5.29%.

But it was subprime ARMs that contributed most heavily to the nation's soaring foreclosure rates. Many of these loans come with low introductory rates that reset higher, often to unaffordable levels, in two or three years. Although they represent only 7% of all outstanding mortgage loans, they accounted for 42% of foreclosure starts during the quarter.

Delinquencies stood at 5.82% of outstanding mortgages, up from 5.59% during the three months ended September 30, 2007, according to the MBA. In the last quarter of 2006, the rate was 4.95%.

Home price plunge accelerates

"In states like Ohio and Michigan, declines in the demand for homes due to job losses and out-migration have left those looking to sell their homes with fewer potential buyers, particularly with the much tighter credit restrictions borrowers now face," said Duncan.

"In states like California, Florida, Nevada and Arizona, overbuilding of new homes created a surplus that will take some time to work through."

California and Florida are the states hardest hit by foreclosures. They accounted for 30% of all foreclosure starts in the United States last quarter, despite representing only 21% of the mortgage market.

Florida's foreclosure start rate more than tripled during the last three months of the year compared with a year ago, and they more than doubled in California.

Both states still have a sizable over-supply of inventory, according to Duncan, due to overbuilding during the speculative boom that lasted through mid-2006. That will continue to depress home prices and add to mortgage delinquencies in those states.

"We expect to see home price declines to last there through the end of 2008," he said, "after the rest of the country is in recovery."

As prices plummet -- already some California and Florida areas have seen price drops of 25% or more, according to Duncan -- defaults will soar.

And falling prices and growing foreclosures create a vicious cycle; the more prices fall the less likely it is that borrowers can use home equity to refinance into more affordable loans, which leads to more defaults. And as foreclosures rise housing inventory increases, further depressing prices.

At the same time, these trends have led to a contraction the construction industry, hurting overall U.S. economic activity and increasing the chances that the economy will fall into recession. ■