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## Foreclosures hit another record high Delinquencies in 4Q at their highest since 1985: MBA

By [Amy Hoak](#), MarketWatch  
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**CHICAGO (MarketWatch) -- More foreclosure records were broken in the fourth quarter of 2007, the Mortgage Bankers Association reported on Thursday.**

The rate of mortgages entering foreclosure was at its highest level in the history of the MBA's quarterly national delinquency survey and the percent of loans somewhere in the foreclosure process also hit its highest level. The delinquency rate of loans past due but not in foreclosure was at its highest since 1985.



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"Declining home prices are clearly the driving factor behind foreclosures, but the reasons and magnitude of the declines differ from state to state," said Doug Duncan, chief economist of the MBA, in a news release.

"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 the homes with fewer potential buyers, particularly with the much tighter credit restrictions borrowers now face. In states like California, Florida, Nevada and Arizona, overbuilding of new homes created a surplus that will take some time to work through."

During the fourth quarter, the rate of loans entering the foreclosure process was 0.83% of all loans outstanding, on a seasonally adjusted basis, up from 0.78% the previous quarter and 0.54% from a year ago.

The percentage of loans somewhere in the foreclosure process was 2.04% of all loans outstanding, up from 1.69% and 1.19% a year ago.

And judging by the delinquency rate, which does not include foreclosures, there could be more trouble brewing. The seasonally adjusted delinquency rate for mortgages was 5.82% of all loans outstanding in the fourth quarter, up from 5.59% the previous quarter and 4.95% a year ago.

Overall, the total percentage of borrowers who were not current on their mortgage was 7.86% in the fourth quarter, Duncan said.

During a teleconference with reporters, Duncan said that the MBA doesn't expect foreclosures to reach a peak until late this year.

The MBA's survey covers 46 million loans on one- to four-unit residential properties, and represents more than 80% of all first-lien residential mortgage loans outstanding. Of all homeowners, about 35% don't have a mortgage and own their home free and clear, Duncan said.

### Looking ahead

The results weren't unexpected. When the survey was released for the third quarter, the delinquency trends seemed to forecast more foreclosure pain in the fourth quarter, said Jay Brinkmann, the MBA's vice president of research and economics, in a telephone interview.

"It was clear that a lot of these would transition into foreclosures," he said.

But one point that could help struggling homeowners with adjustable-rate mortgage payments is the downward movement of short-term rates in recent months. Some homeowners have had trouble dealing with the rate increases when their loans reset.

"The 6-month LIBOR rate, the index rate used for many subprime ARMs, has come down around 2.5 percentage points since last September, greatly reducing the payment shock on many ARM resets," Duncan said in the release. The MBA anticipates at least one more rate cut by the Federal Reserve this month, which could bring adjustable rates down more, he said during the call.

Those rate conditions might not help everyone though, Brinkmann said. A number of ARMs are defaulting even before the reset period takes effect, he said.

And while the interest rate environment is getting more favorable, foreclosures will persist as home prices go down, Duncan said. More homeowners could also face foreclosure if the country enters a recession and starts experiencing significant job losses. Another problem borrowers faced this winter is the direction of fuel prices, giving some people the choice of keeping a mortgage current or paying the heating bill, he added.

Efforts by Hope Now to work with borrowers in distress got traction in late November and early December, but didn't

Efforts by Hope Now to work with servicers in distress get traction in late November and early December, but don't have a great impact on the fourth quarter data, Duncan said. He expects to see more of an effect from Hope Now efforts in the coming quarters. Hope Now is an alliance between counselors, mortgage-market participants and mortgage servicers to reach and help as many homeowners as possible.

#### A closer look at foreclosure starts

Increasing defaults on both prime and subprime loans led to the increase in foreclosure starts, and problems were most prevalent in adjustable-rate mortgages.

The percent of prime ARMs entering foreclosure rose from 1.02% in the third quarter to 1.06% in the fourth, and the rate of subprime ARM foreclosure starts rose from 4.72% to 5.29%.

But a look at the increases over the year shows how bad things have gotten: The foreclosure start rate for prime ARMs increased from 0.41% to 1.06% from the fourth quarter of 2006 to the fourth quarter of 2007, and the rate of subprime ARMs increased from 2.70% to 5.29%.

Conditions are especially dire in California and Florida. The rate of foreclosure starts in Florida more than tripled between the fourth quarter of 2006 and the fourth quarter of 2007, the MBA said. The rate of foreclosure starts in California more than doubled during that time.

The two states represent 21% of all loans outstanding, but accounted for 30% of foreclosure starts in the country. The states accounted for 39% of all prime ARMs outstanding, but 47% of prime ARM foreclosure starts. California and Florida represented 29% of all subprime ARMs, 36% of subprime ARM foreclosure starts.

Michigan, Ohio and Indiana have the highest percentage of loans in foreclosure, but they have experienced relatively little increase over the last year in the rates of loans entering the foreclosure process, the MBA reported.

Problems in subprime ARMs have been influencing foreclosure trends, but the volume of subprime ARMs outstanding is beginning to drop, Brinkmann said. The industry has stopped writing new ones, and many existing subprime ARMs are being refinanced into different products or are being taken off the books after they fall into foreclosure, he said.

Foreclosure starts on loans backed by the Federal Housing Administration, on the other hand, actually decreased to 0.91% during the fourth quarter from 0.95% in the third quarter.

The volume of FHA loans ticked up substantially in December, according to the U.S. Department of Housing and Urban Development. In December 2006, the FHA backed 27,627 loans to purchase a home or to refinance an existing loan. In December 2007, FHA backed a total of 46,014 loans, according to HUD spokesman Steve O'Halloran.

FHA loans are seen as an alternative to the subprime market for lower- and middle-income borrowers. An increase in loan limits for the FHA this year means more home buyers are likely to take advantage of the government-insured mortgage program. ■

*Amy Hoak is a MarketWatch reporter based in Chicago.*

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