

McClatchy Washington Bureau

 [Print This Article](#)

Posted on Thu, Mar. 06, 2008

Foreclosures set records as housing troubles worsen

Kevin G. Hall | McClatchy Newspapers

last updated: March 06, 2008 06:08:52 PM

WASHINGTON — More than one of every 20 home mortgages was delinquent during the last three months of 2007, the highest level in 23 years, according to a report Thursday by the Mortgage Bankers Association.

The group's National Delinquency Survey also found that the rate of foreclosures and the percent of loans in the process of foreclosure reached record levels during the period.

Homeowners with adjustable-rate subprime mortgages, loans given to borrowers with the weakest credit records, were particularly hard hit. One in every five outstanding subprime ARM was delinquent in fourth quarter 2007; one in every 20 already was in foreclosure.

The percentage of overall home loans in delinquency, 5.8 percent, is second only to a period in 1985, when low oil prices caused an economic downturn in the nation's oil-producing region.

More than 938,000 home loans were in foreclosure nationwide in the fourth quarter of 2007, a record 2 percent of all outstanding home loans. In all, more than 3.6 million mortgages were past due or in foreclosure proceedings across the country during the final three months of last year. Of those, nearly 381,700 entered foreclosure in the quarter, another record.

Borrowers with good credit weren't immune. About 5.5 percent of all adjustable-rate prime mortgages were past due in fourth quarter 2007, more than double the rate at the beginning of 2006, shortly before the housing market became unhinged.

California and Florida, which together account for one of every five home loans nationwide and 30 percent of new foreclosures, are dragging down the national housing numbers. Their housing problems matter to the rest of the nation because together they account for about 18.5 percent of the nation's economic activity.

"To the extent that there is an intermingling of economics of the housing market and the economy ... it will have an effect on the broader marketplace," said Doug Duncan, the chief economist for the bankers' group.

More than 5.3 percent of the nearly 6 million outstanding home loans in California were delinquent in the fourth quarter, and more than 7.4 percent of Florida's 3.5 million loans were past due. Mississippi, Michigan and Georgia have the highest

overall delinquency percentages (11.07, 8.97 and 8.37, respectively), but California and Florida drag down the national average by their sheer size.

The outlook grows more complex when Arizona and Nevada are added to California and Florida. The four states suffer from a glut of new and existing homes, have a higher-than-average number of adjustable-rate loans and are seeing the biggest price drops.

Late last year, Treasury Secretary Henry Paulson secured a pledge from mortgage lenders to work expeditiously to modify loans and prevent foreclosures. The effort began in December, so the fourth-quarter data don't reflect its results.

Federal Reserve Chairman Ben Bernanke on Tuesday called on lenders to be more aggressive in modifying problem loans. It was seen as a rebuke of Paulson's efforts with lenders.

Modifying loans is no easy task. Banks no longer hold loans on their books; instead, they sell them into a secondary market where loans are bundled with others and sold to investors as mortgage bonds. It's a process called securitization or syndication.

Securitizers have stopped bundling loans given to the weakest borrowers. Federal Reserve Governor Frederic Mishkin on Tuesday described subprime lending as "already dead as a doornail."

And the resale of loans representing anything but the best credit also is drying up.

Investors right now have little appetite for mortgage bonds since the collateral that backs the loans — the homes themselves — are falling in value.

And since investors, not banks, now hold mortgage bonds, it further complicates a workout to prevent foreclosure.

"What's unusual now is so much of the housing debt has been syndicated, placed in complex structures, so you cannot have face-to-face negotiations between the bankers and the homeowners," said Martin Feldstein, a Harvard University economist and head of the National Bureau of Economic Research.

Thursday's numbers confirm a downward spiral. Lenders have tightened their underwriting standards, making it harder to get loans. That also makes it harder to sell a house, and the longer a home sits on the market, the more it drives down local prices.

The Federal Housing Administration announced on Wednesday higher limits for the loans it guarantees in 14 hard-hit California counties. The FHA now will be able to guarantee loans worth up to \$729,750 in California, and the agency is set to announce new loan limits nationwide.

This temporary increase in loan limits was part of a fiscal stimulus package passed by Congress and signed by President Bush last month. The package also allows government-sponsored mortgage bundlers Fannie Mae and Freddie Mac to increase the maximum loan value they can purchase to up to \$729,750. Actual limits will vary nationwide based on median home prices.

But the effects of the stimulus package won't be felt anytime soon.

"It won't start affecting the marketplace for three to six months," said Duncan, the chief economist. "That will not be a near-term solution, but will provide some assistance down the road."

ON THE WEB

More recent stories on housing:

[Tougher Fed rules for mortgage lending hinge on weak link - enforcement](#)

[Answers to questions about President Bush's subprime plan](#)

McClatchy Newspapers 2008