

Why foreclosure crisis is so difficult to fix

Falling home prices at root of problem

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WASHINGTON – Each day from July through September, more than 2,700 Americans lost their homes in foreclosure.

That number, up from 1,200 a day a year ago, is a sign that the mortgage industry and government programs have done little to help troubled homeowners.

The mortgage market's troubles have proved to be far more serious and intractable than most in government or the private sector had predicted a year ago.

More than 4 million homeowners with a mortgage were at least one month behind on their payments at the end of June, according to the latest data from the Mortgage Bankers Association, and a record 500,000 had entered the foreclosure process.

So why is the foreclosure crisis so hard to fix?

There are five main reasons:

Crashing home prices

A massive speculative bubble in housing prices caused millions of Americans to think of their homes as an investment, rather than a place to live.

Now prices are plummeting. And the bleeding might not stop until the end of next year.

The median home price in the U.S. dropped 9 percent in September from a year ago to \$191,600, and is down 17 percent from the peak in July 2006, the National Association of Realtors said Friday.

Already, 23 percent of homeowners with a mortgage owe more on their loans than their homes are worth, and that figure is expected to rise to 28 percent by this time next year, according to Moody's Economy.com.

While the majority of home-

owners will continue to make their payments and wait for values to recover, some will walk away, leaving the lender with no choice but to foreclose.

Investor speculation

Plunging prices have had even more impact on investors than on homeowners because investors have less emotional attachment to a house.

They're even more likely to walk away, especially if they've put little money into a property.

Investors purchased one of every five homes last year, and almost one of every three when the market peaked in 2005, according to the Realtors trade group.

Now, more than 30 percent of properties in the foreclosure process are owned by someone with a different address, indicating the home is likely owned by an investor, according to foreclosure listing service RealtyTrac Inc.

Complex investments

Traditionally, lenders evaluated borrowers carefully because they held onto the mortgages for the life of the loan.

That process started to change in the late 1980s, as Wall Street found new ways to package the loans into securities to sell to investors.

Investors were attracted to these new mortgage-backed securities because they paid better returns than government bonds.

The high-interest, risky mortgages, called "subprime," boomed, from \$160 billion in new loans in 2001 to more than \$600 billion in both 2005 and 2006, according to Inside Mortgage Finance, a trade publication.

Lenders stopped worrying about the creditworthiness of borrowers and offered them ever-riskier mortgages.

Job losses

The No. 1 reason that people fall behind on their mortgage is loss of a job, or some source of income, perhaps from a divorce or death of a spouse.

If a borrower is unemployed, lenders don't have many options but foreclosure.

Two years ago, about 36 percent of mortgage delinquencies were caused by loss of income or unemployment, according to research by mortgage finance company Freddie Mac.

But that number has risen to 45 percent this year as the unemployment rate has ticked up to a five-year high of 6.1 percent.

Falling behind again

It's hard to fix something that keeps breaking.

Roughly one-third of all subprime loans modified in the third quarter of last year were delinquent again within 10 months, according to a Credit Suisse report released this month.

Maria Martinez, 57, an administrative worker at the county jail in Stockton, Calif., is typical of homeowners who have gotten help, but not enough.

She is three months behind on her mortgage, even after receiving a loan modification earlier this year.

Though Martinez bought the house more than a decade ago for only \$76,000, she now owes about \$230,000 because she refinanced her home loan several times.

"I was trying to borrow some money to pay some bills," said Martinez, who is on leave from her job this month after being diagnosed with cancer.

"I didn't really think ... that I would get into a bind like this," she said.

You are Not Alone!

You owe more than your house is worth

You have a reason!

Loan Modification make sure you can afford it!