

Foreclosure Tsunami, McMansions 'Underwater'

National rates of home foreclosures kept rising in the first quarter of 2007, more than 25% above the last quarter of 2006, and nearly 50% higher than a year ago. According to the online foreclosure data firm RealtyTrac, foreclosure filings nationwide in the first quarter reached 434,498. If the wave keeps rising, as home prices fall and homeowners go "underwater" on their mortgage debt, more than 2 million homes could be foreclosed on in 2007, one on every four or five blocks all across the nation.

"[I]t's not just low-end homes that are going into foreclosure; we're seeing a rising percentage of foreclosures with an estimated market value of more than \$750,000," James Saccacio, chief executive of RealtyTrac, said in a statement. "The rise in foreclosure activity was quite dramatic and widespread in the first quarter, with 37 out of the 50 states reporting year-over-year increases," he added.

In fact, at 2.5% annually, the foreclosure rate for homes whose recent market "value" was over \$800,000, is higher than the overall national rate. Of the ten states with the highest current rates of foreclosures, the top five are not

rust-belt states of the upper Midwest hard-hit by jobs losses, as was the case in 2005 and the first half of 2006; these have been surpassed by the "hot market" or "high-cost" states of Colorado, California, Florida, Nevada, and Massachusetts. In sections of southern California, 75-85% of the houses for sale are foreclosed homes.

The "national foreclosure tsunami" is a strong factor in causing unsold-home inventories to continue to rise—to about eight months' worth for both new homes and existing homes, at current sales rates—whereas inventories are usually sold down during a so-called "housing recession."

As of March, median home prices in the 20 largest metropolitan regions had fallen by only about 1.5-2% from the level of one year earlier; as that price drop continues to accelerate, more and more homeowners will be foreclosed on because they have gone "upside-down," or "underwater" on their mortgages—they owe more than the house is "worth" on the falling market. They will lose home, savings, or both.

Dr. Christopher Cagan, a First American Bank economist analyzing the impact of rising interest rates in the huge mass of "adjustable-rate" mortgages, estimates in a recent study that *each 1% fall in national median home prices increases foreclosures by 70,000 for adjustable-rate mortgages alone.*—Paul Gallagher