REAL ESTATE

Mortgage Meltdown Archive

Foreclosures reach record high

Lenders report sharp rise in foreclosures along with the highest level ever of homeowners seriously late in payments, and warned worst is still ahead.

By Chris Isidore, CNNMoney.com senior writer
December 6 2007: 2:37 PM EST

EMAIL | PRINT | DIGG | RSS

NEW YORK (CNNMoney.com) -- The rate of homeowners going into foreclosure or falling dangerously behind on their mortgage payments hit record highs in the third quarter - signs the real estate meltdown will worsen over the next year, a banking group said Thursday.

The Mortgage Bankers Association reported that 0.78 percent of mortgages entered the foreclosure process in the three months ended Sept. 30. That figure is up from 0.65 percent in the second quarter - the previous record high - and more than double the 0.32 percent rate a year earlier.

The homeowners entering foreclosure brought the total percentage of loans in the foreclosure process to a record high as well of 1.69 percent.

The report also showed that 5.59 percent of borrowers are now at least 30 days late making their mortgage payments, which is just below the record high of 5.68 percent set in 1986. And a record 1.26 percent of the borrowers were 90-plus days late, putting them at significant risk of going into foreclosure.

Doug Duncan, chief economist for the lenders' trade group, said those rising delinquencies rates suggest that the problems have not hit bottom. He therefore expects late payments and foreclosures could continue to increase through the third quarter of 2008.

A subprime bailout plan that works

"If you look at loans at the 90 days past due and not yet in foreclosure, they are rising at an increasing rate, so they are not yet cresting towards the peak," he said. "And it may well be some regional markets recover well after the national average."

Duncan said much of the problem is concentrated in the upper Midwest states of Michigan, Indiana and Ohio, where a downturn in manufacturing has caused the traditional downturn in housing as people leave to seek more work. Those three states have the highest percentage of seriously delinquent loans, which includes those 90-plus days past due or in foreclosure.

But Duncan said another large part of the problem is concentrated in Florida and California, where there was widespread use of subprime adjustable rate mortgages, often used to purchase homes as an investment rather than a primary residence.

Overbuilding during the boom years in those growth markets has left a glut of homes for sale, and caused the collapse of prices in many of those markets. So the combination of the lack of equities in those homes and the new higher loan payments gives the homeowner a strong incentive to let a home go into foreclosure, Duncan said.

PHOTO: REED SAXON/AP

Foreclosures hit a record high in the third quarter and are likely to get worse, according to the Mortgage Bankers Association.

QUICK VOTE

Do you think the mortgage 'freeze' is a good idea?

- Yes
- No

VOTE or View results

Bankrate.com

Current Mortgage Rates

Type	Overall avgs
30 yr fixed mtg	5.84%
15 yr fixed mtg	5.38%
30 yr fixed jumbo mtg	6.73%
5/1 ARM	5.55%
5/1 jumbo ARM	6.06%

Find personalized rates:
Enter ZIP code GO

Special Report full coverage

Top Stories

- Real Estate: The best of 2007
- StubHub's winning ticket
- How Wal-Mart stole Christmas
- Startup bets it all on New Year's Eve
- Wall Street in New Year's countdown

Photo Galleries

101 Dumbest Moments in Business
Ah, what a dumb year it was! Fortune chose the absolutely dumbest of the dumb that the gods of fate and humor delivered into our laps - and yours - this past year. (more)

Real Estate: The best - and the worst - of 2007
It was a brutal year for housing - but not all markets are ailing. (more)

Bipolar bosses, office sleep-overs and more
It's a jungle out there -- and Stanley Bing has the shocking reader questions to prove it. In some of this year's "Ask Bing" highlights, he helps folks contend with thorny issues like porn-surfing bosses and unwanted workplace advances. (more)

"As go Califorina and Florida, a lot of these numbers will go," he said. "We've probably not seen this combination of factors before, and that makes it difficult to forecast."

The survey shows more than 20 percent of the seriously delinquent loans in the nation are in California and Florida, while more than 15 percent are in Michigan, Indiana and Ohio.

Mortgage delinquencies and foreclosures became a serious problem for the overall economy during the quarter, as investor demand dried up for securities backed by mortgages, particularly subprime loans made to borrowers without top credit scores.

- How they got housing wrong
- Home prices post record decline
- Mortgage mess has government scrambling
- Pain persists: '08 housing outlook

Foreclosure rescue: No help for you

Many of those subprime loans had low introductory teaser rates that reset to payments that homeowners can no longer afford.

Subprime adjustable rate mortgages had particularly ugly delinquency and foreclosure rates. The survey showed a record high 15.6 percent, or nearly one in six, were seriously delinquent. Duncan said that rate is sure to rise, as borrowers with better credit and financial situations refinance into more attractive loans, leaving behind only those who are having significant trouble.

But while delinquencies and foreclosures were highest among subprime loans, the problems were not limited to those higher-risk borrowers.

Prime loans, made to people with top credit scores, saw a number of record highs in the delinquency and foreclosure rates for various types of loan types to those borrowers. For example, the percentage of seriously delinquent loans jump to a record 1.31 percent from 0.98 percent in the second quarter. The new rate for those top borrowers in trouble represents about a two-third increase from the rate of a year ago.

The report from lenders came as President George W. Bush unveiled a proposal that would freeze rates for some of those at-risk homeowners for up to five years. But those homeowners who have more than 30 days late in their payment, or who were 60 days or more late during the last 12 months would not be eligible for help under the plan. Consumer advocates said the administration's plan would provide only limited help for the problem, but that it's a step in the right direction.

Subprime blame game

The meltdown in the mortgage market made many major lenders pull back from making subprime mortgage loans, which in turn helped send home sales, prices and new construction sharply lower, raising the risk of a recession. Countrywide Financial (Charts, Fortune 500), the nation's largest mortgage lender, was one of the banks to pull back from making subprime loans.

In addition to the effect on homeowners and mortgage lenders, many of the top firms on Wall Street, including No. 1 bank Citigroup (Charts, Fortune 500) and No. 1 brokerage firm Merrill Lynch (Charts, Fortune 500), have been hit by the mortgage meltdown. Both took billions in writedowns from subprime losses as their chief executives were forced to resign.

The two government-sponsored mortgage finance firms, Fannie Mae (Charts) and Freddie Mac (Charts, Fortune 500), have also both been hit with losses from problems in the mortgage market that have left them scrambling to raise cash.

And homebuilders have been badly hurt by the problems, with No. 1 builder Lennar (Charts, Fortune 500) announcing late last week it was selling 11,000 properties for only 40 percent of their previously-stated value. On Thursday, leading luxury homebuilder Toll Brothers (Charts, Fortune 500) reported its first loss as a public company. ■

Find mortgage rates in your area.

More Real Estate

Real Estate: The best - and the worst - of 2007

New home sales hit 12-year low

Timing the housing market

The Hot List

Cars: Best of the best, 2007

Retirement plan interrupted

57 mpg? That's so 20 years ago