US home foreclosures hit highest level in 30 years

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7 December 2002

Low wages, rising joblessness and predatory lending practices by banks and mortgage companies are contributing to a record number of home foreclosures in the United States.

All across the country—in rural, suburban and inner city areas—more and more families are losing their homes. While the Bush administration diverts billions of dollars in tax cuts to the rich and states and cities slash social programs, millions of workers and middle class people are living on the economic edge, only a lost paycheck or two away from being tossed into the street.

Credit refinancing is offered to hard-pressed homeowners as a way out of unmanageable credit card debt. However, short-term relief is often purchased at the cost of putting the borrower's home at risk.

According to statistics published by the Mortgage Bankers Association of America, foreclosure rates are at their highest level in 30 years. For the three months ending June 30, lenders initiated 134,885 new mortgage foreclosures. That represented close to 4 of every 1,000 mortgaged homes. The number of conventional loans that have been foreclosed has increased 45 percent, to 76,526, the highest level in 11 years.

The rate of home foreclosures dipped slightly in the late 1990s, but has surged with the collapse of the stock market bubble and growing layoffs. Foreclosures are over 25 percent higher today than 2000. The foreclosure rate for FHA financed loans is 37 percent higher.

No comprehensive study of home foreclosure exists. However, it is possible to piece together from local surveys a picture of the situation.

A report published in the November 24 edition of the *New York Times*, "Easy Credit and Hard Times Bring Foreclosures," reports on conditions in Indiana, the state with the highest foreclosure rate. A representative of the Marion County Sheriff's Department, which covers Indianapolis, told a *Times* reporter that she had listed over 5,500 foreclosed properties for sale so far this year, compared to about 1,000 per year in the mid-1990s.

The *Times* cites a typical foreclosure case. A husband and wife with two children own a home on three-quarters of an acre. The wife loses her job at a factory and is forced to take a position at a convenience store, which pays only half as much. The husband, who works at an aircraft parts plant, has his hours cut back. They accumulate $9,000 in debt and are forced to try to save their home by filing for Chapter 13 bankruptcy.

The article reports that bankruptcy filings by homeowners reached 220,720 by the middle of the year. That represents an 8 percent increase over a year ago and the highest total ever.

Policy Matters Ohio released a report in October that notes: "Overall in Ohio, foreclosure filings increased 155 percent between 1994 and 2001 and 23 percent between 2000 and 2001." More than 24,000 Ohio residents lost their homes due to foreclosure in 2001. The problem was not confined to urban areas, in fact "rural counties emerged with the highest percentage of sheriff sales between 1994-2001." [*See* http://www.policymattersohio.org/HomeExecutiveSummary.pdf]

A report by Spokane Neighborhood Action Programs, published June 12, 2002, documents a "dramatic increase" in foreclosures in eastern Washington state. Foreclosures in the area rose from just 70 in 1993 to 1,000 in the year 2000, a 1300 percent increase. The study indicates that more and more mortgage loans are being taken out, not to purchase new homes, but to refinance existing debt.

The report notes: "Homes that went into foreclosure

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in 2000, had, on average, nearly twice as many loans per home as the homes foreclosed in 1993. In 1993, the homes that were foreclosed averaged 1.8 loans per home, while the 2000 foreclosures averaged nearly 3 loans per home. In other words, fewer homes were purchased while more loans and foreclosures were filed." [*See* http://www.snapwa.org/foreclosures1.htm]

An important factor behind the increase in mortgage foreclosures is the rise of so-called subprime loans. Subprime loans are made to borrowers with credit deemed insufficient to qualify for a standard home mortgage. They sometimes entail predatory practices including exorbitant interest rates, additional fees and prepayment penalties that make it virtually impossible for the borrower to escape from debt. Subprime lending is targeted disproportionately at the poor, minorities and the elderly.

The increase in home foreclosures is linked to the rise in subprime lending. Studies in Boston and Atlanta conducted during the 1990s showed foreclosures by subprime lenders tripling, while foreclosures by other lenders remained steady or declined. A similar study in Chicago, which began at an earlier date, showed an even more dramatic increase. [*See* Subprime Foreclosures: the Smoking Gun of Predatory Lending? Policy Development and Research Information Service http://www.huduser.org/index.html]

During the 1990s the practice of "risk based' pricing increased. Banks began charging higher than normal interest rates to certain borrowers deemed to have lower than average credit worthiness. This practice was justified on the grounds that it opened home ownership to those who would not otherwise qualify for mortgages. However, by their nature, subprime loans carry a higher risk of default because they impose an additional financial burden on those who are in many cases least able to afford it. Further, subprime loans have become an arena for outright fraud and abuse. Cases of "redlining" have been documented where whole neighborhoods, usually poor or minority, are deemed to be substandard credit risks, forcing residents with otherwise excellent credit to pay subprime interest rates.

One of the most flagrant offenders is CitiGroup, headed by Bill Clinton's former treasury secretary Robert Rubin. In March the Federal Trade Commission charged CitiGroup with deliberately "steering" and "misleading" borrowers into accepting predatory loans.

It is alleged that CitiGroup, its affiliate Associates First Capital and sister company CitiFinancial engaged in predatory lending practices such as inducing borrowers to take out high-interest loans even though they qualified for prime-rate loans. It is also charged that CitiGroup engaged in another predatory tactic known as "flipping," where borrowers are pushed into progressively higher-interest loans by repeatedly refinancing their mortgages. The bank is also alleged to charge "excessive and unjustified" fees and impose impossible loan terms that lead to foreclosure.

Despite these serious allegations of a criminal character, CitiGroup and its executives were able to escape any major consequences by paying a mere $215 million in restitution to defrauded home buyers.

Such practices are by no means the exception. Subprime lenders often impose interest rates far higher than anything that could conceivably be justified by factoring in costs associated with added risk. Borrowers are often unaware of provisions hidden in fine print that require additional fees, balloon payments or the payment of compulsory life insurance premiums. In some cases lenders simply lie to borrowers, stating installment amounts that are far lower than what the mortgage holder is actually required to pay.

There are indications that the speed of home foreclosures is increasing. This is also tied to the rise of subprime lenders. For example, the above mentioned study in Washington state noted that of all foreclosures reported in 2000, subprime lenders were responsible for 58 percent of fast foreclosures, defined as foreclosures within the first two years.

Powerful financial interests have intervened to block even token reform. For example, the Ohio legislature enacted a bill in February 2002 prohibiting local communities from passing laws against predatory lending.

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