Home foreclosures surge—no housing boom for poor families in the US

Naomi Sheehan Groce
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A little-reported aspect of the housing boom in the US is the corresponding surge in home foreclosures. Amidst a sharp rise in median housing prices, more and more Americans are finding themselves unable to meet monthly payments and are being forced into foreclosure. For many working class homeowners, the potential for financial catastrophe, including homeforeclosure and personal bankruptcy, is one illness or missed paycheck away.

Foreclosure is the circumstance a homeowner falls into after missing mortgage principal or interest payments, losing the title to the home. The holder of the mortgage, most commonly a bank or other financial lending corporation, then seizes and sells the property to satisfy the claims of the mortgage.

According to Brad Geisen, president and CEO of the online real estate listing service Foreclosure.com, "New foreclosure inventory rose in 47 states in March. This signifies a national trend ... foreclosure inventory will likely continue to rise across the country." The most recent market report issued by Foreclosure.com listed 28,190 newly foreclosed properties for the month of March, up 57 percent from 18,012 the same month last year. The total national inventory of foreclosed homes was 80,757 in March. RealtyTrac Inc., the real estate data provider to AOL, MSN and Yahoo, also released a report on foreclosures in March, listing more than 62,000 properties nationally in some stage of the foreclosure process for the month.

A May 30 *Washington Post* article focused on the foreclosure rate in Pennsylvania, describing personal hardships of residents facing loss of their homes. In one working class neighborhood in northeastern Philadelphia, for example, 18 of 42 homes on a single block have gone into foreclosure within the past three years. Philadelphia's sheriff now handles more than 1,000 property auctions a month, compared to 300 to 400 a month in 2000. In Pittsburgh, officials referred to the record number of auctions as indicative of a "Depression-era" problem.

The *Post* interviewed a Philadelphia resident who had been diagnosed with cancer and lacked health insurance. She fell behind on her house payments and had to foreclose. Another woman with a similar story approached her lender, who had already sold her debt to another credit agency. She attempted to file for bankruptcy but was denied, and currently contends with double payments because of late penalties. Most low-income homeowners across the country face comparable threats, lacking adequate health insurance. By one estimate, medical expenses are the primary cause of financial distress for 40 percent of those struggling to hold on to their homes.

An illness or injury which leads to hospitalization and unemployment also easily leads to lapses in bill payments. A study of 1,771 bankrupt Americans conducted by Harvard University and released in February found that half were driven to bankruptcy court by medical bills and illness. Most of those, three-fourths, had health insurance, but could not afford high co-payments or had their employment terminated due to health problems.

The housing sector is at present a principal prop of the US economy. Since 1999, the average price of existing homes has risen 48 percent. The 2005 median home price has soared to $206,000, 15.5 percent over the same period in 2004—the largest yearly increase since 1980. The Department of Housing and Urban Development listed 26 areas in the US where home prices have inflated by more than 20 percent, with half of those areas actually experiencing a doubling in market price. Meanwhile, employment and real wages have declined, creating a precarious situation for many American homeowners dependent on credit.

One much-touted force sustaining the housing market has been low mortgage interest rates—currently the fixed

30-year mortgage rate stands at a 45-year low of 5.56 percent. However, the rise in housing prices means that for many Americans even these low interest rates are difficult to meet. Many Americans have been hooked by financial firms pushing option adjustable rate mortgages, or option ARMs, which usually promise initially low interest rates that vary from month to month. Introductory rates can be as low as 2 percent, but if interest rates increase, those who have only made the minimum monthly payment face a bloated and sometimes insurmountable loan balance.

Interest-only loans are another major contributor to the boom. This type of mortgage plan allows a buyer to pay only the interest for a number of years while optionally paying down the principal. But after the initial interest-only period has ended, the buyer must pay the principal at a much higher rate because of the delay.

In the short term, the interest-only option reduces the proportion of income a borrower must devote to housing, an appealing prospect to many working class Americans in light of the decline of real wages and the economy as a whole. A recent survey by the Mortgage Bankers Association found that nearly two-thirds of all new loans in the second half of 2004 were option ARM and interest-only loans.

Another factor boosting the housing sector has been the explosion of sub-prime lending, where predatory mortgage companies target consumers with bad credit ratings and low incomes. These consumers are often ineligible for the much lower prime market rates. The lenders prey upon the dream of homeownership among the working poor, offering to accept “high risk” borrowers. In turn, interest rates are inflated as high as 12 percent, a rate so exorbitant that many borrowers cannot keep up with payments, penalties and other fine-print fees, particularly in the event of job loss, injury or illness in the family. A very high percentage of sub-prime mortgage agreements end in desperate refinancing attempts, foreclosures and personal bankruptcy filings.

The Mortgage Bankers Association on June 8 stated that refinancings as a percentage of all mortgage applications have increased to 42.9 percent of total mortgage applications, up from 41.2 percent the previous week and 40.3 percent the week before.

Commenting after a speech on May 20, Federal Reserve Board Chairman Alan Greenspan conceded that the national market appears to be a “froth” of volatile local bubbles, symptomatic of “an unsustainable underlying pattern.” Particularly in urban and coastal areas, these local bubbles are characterized by a frenzy of speculation, home turnover and large margins between median house prices and median incomes. In California, for instance, the median household income is $53,540, but the median house price is currently $488,600. To qualify for a traditional fixed-rate mortgage for such a house, a buyer would need to earn almost twice the median income.

In part, house prices are being pushed up by those purchasing multiple homes—three-fourths of all homes for sale are bought by owners of multiple homes, with the intention of converting them into rental units, or “flipping” them back onto the market after remodeling in order to turn a profit. Those in the working class who are seeking to buy are thus effectively and systematically out-priced by the voracious demand of speculators, driving demand, competition and prices still higher.

Buyers who have sought refuge from this housing boom in the form of interest-only and option ARM loans are vulnerable to the inevitable rise in federal interest rates. If interests rates rise sharply, this will mean a sharp rise in monthly payments for millions of people with nontraditional mortgages, leading to even more foreclosures.

The government’s response to such a potential development has been to take preventive steps on behalf of credit agencies against individual debtors. Signed by President Bush in April and set to take effect in October, the “Bankruptcy Abuse Prevention and Consumer Protection Act of 2005” will more tightly restrict the ability of individuals to declare bankruptcy and find relief from debt. The new law will convert many Chapter 7 personal bankruptcy filings to Chapter 13 designations, requiring debtors to devote future sources of income to stringent repayment plans.

Further limitations have been placed on the ability of individual debtors to exempt property from creditors, opening the door for total liquidation of those debtors’ estates by the same predatory lenders responsible for the financial collapse. In many states, this includes stripping the destitute, ill and elderly of homes and land valued at as little as $10,000, leaving them without shelter and incapable of making a fresh start.