Foreclosures soar, layoffs mount in US mortgage industry crisis

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The US housing market showed further signs of deterioration on Tuesday with the release of a report showing a sharp 9 percent increase in foreclosure filings from June to July. World financial markets have been rocked in recent weeks by a credit crisis with origins in the US home mortgage market.

The report came a day after Capital One Financial Corp, a major US bank, announced it was shutting down a mortgage branch of the company, laying off 1,900 employees. Tens of thousands of financial services jobs have been eliminated this year as a consequence of problems in the mortgage markets.

According to Realtytrac.com, a foreclosure research and marketing firm, there were a total of 179,599 foreclosure filings in July—including default notices, auction sale notices and bank repossessions. This was a 93 percent increase over the same figure one year ago. Foreclosure filings have been rising for over a year, although they fell seven percent in June.

Foreclosures are heavily concentrated in a number of states in which shifts in the housing market have been particularly devastating for working people. California, Florida, Michigan, Ohio, and Georgia accounted for over half of the total number of foreclosures in July. California's foreclosure activity is up 289 percent from July 2006, and six California cities were among the top ten urban centers with the highest foreclosure rates in the country.

Michigan residents continue to be devastated by the attack on jobs and wages in the auto industry. According to Realtytrac.com, "Detroit posted a 70 percent month-over-month increase in foreclosure activity in July, pushing the city's foreclosure rate to one foreclosure filing for every 97 households—more than seven times the national average and the highest among 200 metro areas tracked." Michigan as a whole had the third highest foreclosure rate in the country—one out of 320 homes.

Nevada had the highest rate of foreclosure, with one out of every 199 homes (or 0.5 percent) foreclosed in July. Because it is a relatively less-populated state, however, Nevada did not rank among the top states for total foreclosures. Georgia had the second highest rate, with one out of ever 299 homes foreclosed, a 75 percent increase over June.

The rise in foreclosures is bound up with the deflation in home prices, as struggling homeowners are no longer able to refinance their mortgages to meet monthly payments. The maturing of adjustable rate mortgages has also led to a sharp increase in housing bills for many homeowners in recent months.

A separate report from the Office of Thrift Supervision (OTS), part of the federal Department of the Treasury, reported difficulties in the savings and loan banking sector, which is heavily involved in home lending. Troubled assets, defined as loans that are at least 90 days past due, have increased by 50 percent over the past year, to $14.2 billion. According to an AP report, "That's the highest level of troubled loans at the OTS since 1993, with most of the problems in home mortgages, OTS officials said."

Meanwhile, Capital One Financial said it would shut down its GreenPoint mortgage arm. The unit of the bank specialized in "jumbo" loans—those over $417,000—and so-called "Alt-A" loans—loans to individuals who cannot fully document income or assets.

Capital One, whose main area of operations is credit cards, acquired GreenPoint when it bought up North Fork Bankcorp in 2005. North Fork paid $6.3 billion for GreenPoint in 2004. In a sign of the sharp downturn in the housing market, Capital One announced that it would take an after-tax charge of $860 million associated with the closure.

Unlike subprime loans, jumbo loans are generally made to individuals with good credit histories. However, their large size means that they are ineligible for repurchase by the government-backed mortgages agencies Fannie Mae and Freddie Mac.

Problems in the jumbo loan market reflect in part the over-extension of many homebuyers as housing prices have soared in recent years. While such mortgages were once generally used to purchase luxury homes, in recent years even modest residences in states like California cost more than the $417,000 minimum that defines a "jumbo" loan. Unable to afford the large monthly payments, buyers have been forced into foreclosure.

In a statement announcing the move, Capital One indicated that it saw broad worries in the mortgage industry extending beyond the subprime market. "[R]ecent and continuing development in the mortgage markets reduce the long-term outlook for profitability in the business, as the company expects markets for prime, non-conforming mortgage products are likely to remain challenged for the foreseeable future."

In an internal memo, Capital One CEO Richard Fairbank said the closure was the result of "an unprecedented set of market circumstances."

The layoffs at Capital One are only the latest in a spate of job cuts at US financial service companies, according to a report issued by consulting firm Challenger, Gray & Christmas on Tuesday.

Challenger reported that already in 2007 there have been 87,962 job cuts in financial services, 75 percent more than in all of 2006. The number of layoffs has been escalating in recent months, with nearly one quarter announced in the first three weeks of August alone.

Challenger found that 35,830 of the job cuts were tied to the housing market. In addition, real estate firms have announced 1,950 job cuts, and construction firms 19,670, so far this year. The total for these two sectors is more than twice the number for 2006.

In an interview with news agency Reuters, Challenger CEO John Challenger gave a sense of the magnitude of the shift. "Many companies expected the mortgage situation to implode; they've just been wondering when the bubble would burst," he said. "But many are stopping on a dime, shutting down operations. Companies are not surprised by what's happening, but the reality of the situation and the speed with which it occurred is shocking."

In addition to Capital One, major job cuts have been announced at Bear Stearns, First Magnus Financial Corp, and Countrywide Financial Corp.

Troubles at Countrywide, the nation's largest mortgage lender in terms of volume, have been particularly worrisome for investors. In an ominous sign for the banking system, depositors lined up in many cities on Monday morning to check on deposits and withdraw money from the institution's banks, after hearing of the company's financial troubles.

Late on Monday, Countrywide announced that it had cut 500 jobs at one of its lending divisions that specializes in Alt-A loans.

In an effort to maintain confidence in its operations, Countrywide took out advertisements seeking to assure consumers that all is well at the company. Last week, the company reported that it had reached the limit of its $11.5 billion credit line, and there has been speculation that it could go bankrupt, or might be bought up by outside investors, including billionaire Warren Buffett's company, Berkshire Hathaway.

A series of other actions this week indicate a housing market that is in deep crisis:

> * Thornburg Mortgage, which specializes in jumbo loans, announced on Monday that it had been forced to swallow a $930 million loss in order to unload top-rated mortgage securities to avoid a cash crisis. The company had been frozen out of an important lending market after having its credit rating downgraded.
> * San Francisco-based Luminent Mortgage Capital Inc., a real estate investment trust, said on Monday that it would allow Arco Capital to buy a 51 percent share in the company at a deep discount in order to obtain necessary cash. The company is suffering from a spate of housing mortgage default notices.
> * Bank of America moved Toll Brothers, a luxury homebuilder, to a "sell" rating. Many of Toll Brothers buyers use jumbo loans. Bank of America analyst Daniel Oppenheim said that demand for new homes will likely fall by 35 percent this year.

The problems in the US housing market have set off a broader credit crunch, as investors fear the souring of loans to individuals and businesses. In a sign of extreme nervousness among investors, the yield on short-term US Treasury bonds on Monday saw their biggest drop since the late 1980s. Yields fall as investors buy the Treasury bonds, which are considered to be one of the most secure forms of investment.

The flight to treasury bonds came as investors dumped holdings in other assets, including corporate debt and securities related to jumbo mortgages.