The social toll of the US home mortgage crisis

Part 2

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The following is the second in a two-part series.

Median home prices in the US have nearly doubled over the past ten years, from $109,000 in 1995 to $206,000 in 2005, outpacing the growth of the consumer price index by over 33 percent during this period. As median-priced homes have moved out of reach of median-income earners, homebuyers have sought to use riskier mortgage instruments to bridge the gap.

Despite the increase in prices, however, the past 15 years have seen a five percent increase in the home ownership rate. Considering that the median wage has been stagnant since 1999 and incomes of low-paid workers have been declining for decades, it would follow that this change has come about through increasing indebtedness.

Indeed, overall household indebtedness climbed drastically during the housing bubble, just as mortgage debt constituted a greater section of overall household debt. According to figures from the Federal Reserve, outstanding household debt as a percentage of disposable personal income grew from 88 percent in 1994 to 117 percent in 2004. The *Washington Post* reported that this statistic reached 126 percent in 2005—a 45 percent increase in the course of 11 years. According to a 2006 report in *Harper's Magazine*, almost half of first-time home-buyers paid no money down on their mortgages in 2005.

Mortgage debt has been the main driving force of the overall growth in debt since 2001, and increasingly so during the latter part of the housing bubble. A 2006 report by the Woodstock Institute observed, "In 2000, net increases in nonfarm mortgage debt made up 44 percent of the increase in total net liabilities. The same percentage at the end of the third quarter of 2005 was 79 percent."

Moreover, the past quarter-century has seen consistent decreases in homeowners' equity as a percentage of the real estate in their name. In 1979 families owned an average of 67.3 percent of their homes; this figure had dropped to 56.7 percent by 2004. The change occurred despite the recent rise in home prices, which might have allowed homeowners to translate the greater value of their properties into greater equity by refinancing. In fact, the reverse occurred; a 2004 report by the Federal Reserve found that almost half of homeowners who refinanced actually reduced the amount of equity in their homes by converting it into cash. This resulted in longer-term loans for 80 percent of those who refinanced, and higher monthly payments for 40 percent.

The overall increase of mortgage debt, however, has not been spread evenly within the American population. A 2004 report by the Century Foundation found that low-income homebuyers had experienced an increase in their mortgage burden far out of proportion to their numbers. The report found a 191 percent increase in mortgage debt in the lowest income group, in contrast to 95 percent in the median income percentile and 39 percent in the highest.

The Century Foundation report also notes that "a family with two earners today actually has less discretionary income, after fixed costs like medical insurance and mortgage payments are accounted for, than did a family with one breadwinner in the 1970s." (See "Life and Debt: Why American Families are Borrowing to the Hilt")

Moreover, a 2004 study by the Federal Reserve Board found that more than a quarter of low-income households spend forty percent or more of their earnings repaying debt.

These long-term changes have made themselves felt in the foreclosure statistics. According to data from the Census Bureau, home foreclosures increased by 250 percent from 1980, when there were 114,000 foreclosures, to 2001, when there were 555,000. This period also witnessed a four-fold increase in personal bankruptcies.

What people are going through

A multi-millionaire like George W. Bush, a thousand miles removed from the everyday realities of American life, can describe the "recent disturbances in the subprime mortgage industry" as "modest." However, many lives are being

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turned upside down by the present mortgage crisis and wave of foreclosures.

The WSWS spoke to Ryan, a nineteen-year-old part-time student at Delaware Technical and Community College, whose situation is perhaps typical. Ryan said his family was five months delinquent on its mortgage payments and about to go into foreclosure. “It’s basically understood that we’re going to lose the house.”

Ryan’s mother, a single parent, worked at Bank of America before losing her job last month in the wake of the company’s buyout of MBNA. “She was a good worker, but she was just too costly to have around.

“Things began to get bad when my mother lost her overtime about five months ago; that was when we stopped being able to pay the mortgage.” After Ryan’s mother lost her job, he started working full-time at the nearby Amazon.com shipping facility to support his younger brother and sisters. “It was really difficult to make that change. I had to make the decision to sacrifice my own future to help my sisters and brother.

“My mom had really bad credit, but she managed to avoid getting a variable-rate mortgage by getting my older brother, who just got out of the military, to co-sign her loan. But now that we’re going into foreclosure his credit rating will be wiped out too; he’s trying to start a family and it’ll be more difficult for him to find a decent mortgage.”

“It’s a horrible situation; it’s changed everybody. Right now I’m supposed to be going to the university—living liberally and enjoying my youth. But instead I have to worry about whether my sisters and brother will have a roof over their heads and food on the table. They’ll have to change schools, which will be difficult. We’ve tried to make sure they don’t grow up too fast, but sometimes it’s not really under your control. Poverty affects more than just your pockets; it changes every aspect of people.”

Single income earners are by no means the only ones to be affected. John and Maria Buma, homeowners living in La Jolla, near San Diego, California, have also been affected by the collapse of the real estate bubble. Maria, 28, is a mechanical engineer working at a local software company. John, 30, works as a laboratory technician at Johnson & Johnson. They have two children.

In 2005, when the Bumas took out their mortgage, the median home price in San Diego was over $600,000. Their house, which they bought for $500,000 with an interest-only, adjustable rate loan, has since fallen in value by 10 percent, to $450,000. Although they have been paying their mortgage for two years, they own no equity in their home.

John Buma told the WSWS, “At least we had the good foresight to get a loan that adjusts after five years instead of three; if we had to start making higher payments now we’d be in real trouble. After mortgage, car, student loan and daycare payments, we’re left with about $100 in discretionary income per week. We really don’t save as much as we should; if one of us loses our job or gets sick, we wouldn’t be able to last more than a few months.”

The WSWS also spoke with Carol Trowell, an Associate Broker at Century 21 DuPont Realtors in Detroit. “Most people who are foreclosing now didn’t know what they were getting into. Home ownership is the American Dream, but people didn’t understand what they were applying for—they just looked at introductory rates and signed on the dotted line. Now a lot of people who got subprime mortgages can’t refinance.

“People got adjustable rate mortgages that stayed low for 2-3 years. But now the rates are going up, and people can no longer afford to make their monthly payments. What do you do when you’ve got a $700 original payment that goes up to $1700, with all the additional taxes, but you simply don’t have the money to pay for it?”

Detroit, which has been devastated by the ongoing downsizing of the auto industry, has the highest foreclosure rate of any metropolitan area in the US. “I think the loss of jobs has had a great effect in pushing people into foreclosure,” Trowell continued, adding, “How is somebody supposed to pay their mortgage if they don’t even have a job?”

The city saw an astonishing 70 percent month-over-month increase in its foreclosure rate from June to July. “The fallout is here already, and it will probably be here for the next year, if not longer,” Ms. Trowell said. “If you walk through Detroit you’ll see that there are at least two homes that have been foreclosed upon in any given street.” In fact, Detroit reported a total of 8,683 foreclosure filings in July. How much human misery does that startling figure suggest?

Concluded

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