US home foreclosures nearly double from a year ago

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The staggering rise in US home foreclosures was documented in a report issued Wednesday by RealtyTrac, a California-based marketer of foreclosed properties. Overall, the firm reported, residential foreclosure filings nearly doubled in the third quarter of 2007 from a year earlier.

Foreclosure filings rose in 77 of the largest 100 metropolitan areas from the third quarter, according to RealtyTrac. Cities in California and Florida, states which saw the greatest surge in home prices in the real estate boom of the previous several years, and Ohio, where massive downsizing in auto, steel and other industries has devastated urban centers, dominated the 25 metropolitan areas with the highest foreclosure rates.

Stockton, California had the highest foreclosure rate, with one in every 31 households filing for foreclosure. Its foreclosure rate surged 30 percent from the previous quarter and was up by nearly 500 percent over the previous year.

Detroit, Michigan, which has seen the closure of dozens of auto plants and destruction of hundreds of thousands of auto jobs over the past quarter century, had the second highest foreclosure rate. One in every 33 Detroit homes filed for foreclosure. The number of foreclosure filings in Detroit nearly doubled from the previous quarter.

Other cities among the top ten foreclosure rates were Fort Lauderdale, Florida; Las Vegas, Nevada; Sacramento, California; Cleveland, Ohio; Miami, Florida; Bakersfield, California; and Oakland, California.

In Las Vegas, the foreclosure rate was up 200 percent from last year. In Sacramento, the rise was 408 percent. Cleveland saw an increase of 179 percent. Bakersfield was up 361 percent, and Oakland's rate rose by 269 percent compared to the third quarter of 2006.

The report provides an indication of the devastating social toll resulting from the collapse of the housing and credit bubbles that were fueled by subprime, often adjustable rate home loans. The loans were sold by mortgage companies to home buyers with shaky credit, little or no cash for downpayments, and insufficient incomes to meet higher interest rates resulting from mortgage resets that are now taking effect.

Backed by the big Wall Street banks and brokerage houses, mortgage companies aggressively marketed home loans to households that in the past would have never been approved for such loans. Home buyers were assured that they were protected by rising home prices, which would enable them, if they found themselves in economic straits, to sell their properties and have more than enough money to pay off their outstanding balances.

For their part, the banks and big financial institutions bought the subprime loans, pooled and divided them up, and resold them to other financial institutions, hedge funds and big investors as "securitized" assets, or "collateralized debt obligations" (CDOs). These speculative investments were given triple-A ratings by credit rating agencies such as Moody's, Standard & Poor's and Fitch, even though they were ultimately based on highly questionable loans.

The banks made huge profits by underwriting and trading these inflated securities, which fetched a high rate of return, generating the multi-million-dollar and even multi-billion-dollar incomes that flowed into the bank accounts of top Wall Street executives.

The entire speculative edifice, akin to a huge Ponzi scheme, could be sustained only so long as housing prices continued to rise, undergirding a virtually unlimited supply of cheap credit. Even if subprime homeowners defaulted, Wall Street calculated, the foreclosed properties could be sold for more than the defaulted mortgages, leaving speculators in the black.

The decline in housing prices and sales that began in 2005 led to the implosion of the housing and credit bubbles, resulting since the summer of this year in a near-panic on Wall Street, a sharp contraction of credit, and massive devaluations of CDOs and other subprime-linked assets held by some of the biggest Wall Street banks.

Suddenly, millions of homeowners, the victims of predatory lending practices and the scramble on Wall Street for quick and extraordinarily high returns on their investments, found themselves unable to meet their mortgage payments and unable to sell their homes, whose prices had plummeted to less than their outstanding debt.

The plague of foreclosures is set to worsen. Testifying last week before Congress, Federal Reserve Board Chairman Ben Bernanke estimated that 400,000 adjustable rate subprime mortgages will reset to higher rates every quarter until the end of 2008. Congress issued a report estimating that 2 million borrowers will be unable to avoid foreclosure over the next year.

Home prices in 20 metropolitan areas declined for the eighth straight month in August, according to the S&P/Case-Shiller home price index, and mortgage giant Countrywide Financial said Tuesday it financed only $22 billion in home loans last month—down 48 percent from a year ago.

The coming rise in home foreclosures is expected to reduce property values by $223 billion, with the most severe impact in minority communities, according to a report released this week by the Center for Responsible Lending. “These foreclosures are wiping out wealth that people often took a lifetime to build,” said Martin Eakes, the center’s chief executive. “Many families will never achieve home ownership again.”

The unraveling of the subprime mortage boom continued to take its toll on major US banks this week. Bank of America and Wachovia, two of the country’s five largest banks, announced billions of dollars in write-offs of subprime-linked securities, joining Citigroup, Merrill Lynch, Morgan Stanley and a number of European banks that have announced massive losses.

As the credit agencies downgrade CDOs and other exotic securities from triple-A to junk bond status, the big banks and brokerages are forced to record huge losses on their balance sheets. Estimates of the total amount discounted thus far range from $40 billion to $55 billion. Deutsche Bank issued a research report Monday calculating that bad mortgage debt could cost banks as much as $400 billion.

The combined housing and credit crises have shaken global stock exchanges, fueling enormous volatility and big sell-offs of shares, not only of financial stocks, but also of hi-tech firms and other economic sectors. Earlier this week, the on-line brokerage firm E*Trade saw its stock plummet by nearly 60 percent in a single session after it reported large write-offs of subprime-related debt.

The entire parasitic edifice of financial speculation that is threatened with collapse rests on an ever narrower and more eroded industrial and productive base. The current crisis highlights the degree to which the operations of American capitalism are based on the accumulation of fantastic wealth in the hands of a financial elite at the expense of the jobs, living standards and conditions of the working population and society as a whole. Social wealth and resources are diverted away from the production of useful goods and the development of the economic and social infrastructure in order to satisfy the profit drive of the ruling elite.

The burden of this speculative frenzy will be overwhelmingly borne by the working class, not those whose policies have fueled the crisis. To give some examples: Countrywide Financial, which has laid off thousands of employees since the subprime crisis erupted, is seeking to extend the redemption period for its top executives to cash in their stock options. This is because the decline in the company’s stock has rendered the options worthless if they are executed within the time frame stipulated when the options were granted. The idea is to give the executives who presided over the near-collapse of the company and the ruination of thousands of homeowners a chance to realize profits on their options, should the stock rebound.

E. Stanley O’Neal, the former CEO of Merrill Lynch, who was ousted at the end of October after his company announced $8.4 billion in subprime losses for the third quarter, left the company with a $161.5 million retirement package, on top of his $48 million paycheck for 2006.

Charles Prince, the former CEO of Citigroup, who was forced out earlier this month after the largest US bank announced up to $11 billion in subprime-related losses, will receive a cash bonus of at least $12.5 million. This is on top of $68 million, including his salary and accumulated stock holdings, plus a $1.7 million pension, and an office, car and driver for up to five years. All of this is in addition to $53.1 million he has collected in the last four years, a period which saw the company’s market value decline by $64 billion.