Detroit: second highest foreclosure rate in US

Elisa Brehm
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The US subprime mortgage crisis is hitting Detroit with particular ferocity. The home foreclosure rate in the hard-hit industrial city is now the second highest in the country, affecting one out of every 21 homeowners—eight times the national average.

During the 1950s when Detroit's Big Three automakers—General Motors, Ford and Chrysler—produced four out of five of the world's cars, the Motor City boasted the highest rate of home ownership of any major city in the US, along with the highest median income. Factory workers, many of whom had migrated from impoverished rural and coal mining regions in the South and Appalachia, were according to popular myth living the American Dream.

Over the course of the ensuing decades the auto companies drastically downsized Detroit's manufacturing base, reducing the city to one of the poorest in the nation. Since 2000 alone, the metropolitan area has lost 126,000 jobs. This has combined with the bursting of the housing bubble to produce a social calamity.

In a few days, Mike Stone and his wife Melissa expect to be thrown out of their home in Redford, a nearby Detroit suburb where they have lived for 13 years. The precarious nature of life in America is often demonstrated when an injury, accident, loss of a job or a cut in pay almost immediately produces a catastrophe for a worker and his family.

Melissa had a car accident last February and Mike lost his job. His unemployment insurance has run out and he has been unable to find another job. Melissa, who has been unable to work since her accident, expressed a sentiment heard over and over: "We never expected anything like this would ever happen to us." Shocked at the ordeal, she explained, "Can you imagine, we are in our fifties and going through this? We have health insurance, so can you picture where we would be if we didn't even have that? This is causing us so much stress and frustration."

In August alone, foreclosure notices were served on 260 homes a day. A few weeks ago readers opening the *Detroit Free Press* found a 121-page list of foreclosures published by the Wayne County treasurer's office. More than 70,000 homes in metropolitan Detroit entered some phase of foreclosure between January 2006 and September 2007, according to a *Detroit News* analysis of foreclosure data. These figures represent a six-fold increase to what was already a record set by January 2006. Even this understates the real situation because those adjustable mortgages that will reset to a higher rate—causing another wave of foreclosures in March 2008—are not included in the total.

The number of foreclosure filings in Wayne County—where Detroit is located—is 49,381. In neighboring Oakland County and Macomb County, the filings are 11,023 and 10,284, respectively. Behind these numbers stand as many as a quarter of a million people who are affected with the prospect of losing their homes, and with it everything for which they worked.

One thing is clear about the housing crisis. The housing meltdown is impacting all sections of the working class population. For example, in more affluent West Bloomfield Township located Oakland County, where the median household income is $110,000 and the median home value is $317,000, there are 487 homes facing foreclosure. In other once-stable Detroit suburbs in Oakland County—such as Southfield, Ferndale, Oak Park and Lathrup Village to name a few—the foreclosure predicament confronts thousands.

The statistics in Detroit provide a glimpse of the social crisis**.** In the city as a whole the median household income is only $35,500 with median home values at $76,400. However, there are areas where conditions resemble a third world country. In some neighborhoods, 1 in 7 homes received a foreclosure notice between January 2006 and September 2007.

Helen Street is on the east side of Detroit, once home to several Chrysler plants. On that street alone there are 83 homes in the process of foreclosure. In that particular housing tract, the median household income is less than $25,000 and the homes are valued at $36,000.

Behind these record-breaking numbers lies not a failing of personal or individual responsibility, but an immense social catastrophe brought about by the drive of the Wall Street banks and financial institutions to make enormous profits at the expense of working people.

From 2001 to 2005, lenders loosened their standards making it easy to get a loan and encouraged mortgage brokers to sell loans in which the amount of money borrowed far exceeded the borrower's ability to repay it. Many homebuyers were sold more costly loans by mortgage brokers who, very often, were rewarded with higher commissions and fees.

This fueled the growth of the subprime mortgage sector and also led to the proliferation of "exotic" (speculative) loans to people who would otherwise qualify for conventional debt instruments if the size of their mortgage were smaller. Subprime mortgages account for about 55 percent of mortgages in the region. Such loans are generally 3 percentage points higher than conventional rates available to those with good credit.

"Subprime mortgages include features that increase the risk of foreclosure," noted a report produced by The Center for Responsible Lending. The report noted an increasing share of loan products in the subprime market that limit the amount of equity a borrower builds. "These loans also carry a high risk of payment

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shock and may limit homeowners' ability to acquire the equity needed to refinance out of an unaffordable loan."

Typical for many workers is the situation facing Roz, an interior designer from Detroit. She paid $7,000 in interest last year; but her principle has remained at $62,000 after several refinances. Now she is delinquent on her payments.

"My first refinance, I took money out of the house to buy a new furnace and make other repairs. I went into an adjustable rate in 2002 and the interest went up 11 percent. We were forced into bankruptcy."

To save her home she is currently working three jobs. "There used to be the rich, middle class and poor. But now the middle class is becoming poor. It doesn't matter if you're white or black. All working class people are going through the same thing. We're all just one step from being on the corner asking for food and money."

On December 13, state of Michigan officials held a forum on "Avoiding Foreclosure" in order to respond to the growing numbers who are at risk of losing their homes. More than 4,000 attended the all-day event in downtown Detroit where lenders were present to meet with homeowners. Only a small number received any relief. Many were lectured about cutting their family budgets to make their house payments.

Many people who attended the event are substantially behind on their mortgage payments because of increased property taxes. When a home is sold to a new owner, property taxes generally increase. Few first-time borrowers are aware of this and the mortgage lenders do little to let them know.

Rickey Hussey, a 32-year-old from St Clair Shores, is the father of four children, ages 1, 4, 13 and 15. He has lived in his home for a year and a half and saw his payments rise from $1,308 per month to $1,500 due to an increase in property taxes.

"I lost my job as a chef which I had for 10 years, and I cannot pay my mortgage. My unemployment compensation begins tomorrow, but it does not seem to be enough."

There are a number of factors driving the foreclosing of subprime mortgage loans. Most common are the adjustable rate mortgages (ARMs), which lured buyers in with teaser incentives but included built-in steep rate and payment increases. These loans are sometimes called "exploding ARMs" because of the sharp increases that hit unsuspecting borrowers.

With a fall in home prices between 10 and 20 percent combined with a loss in income, many find it no longer possible to refinance, which was an option in the past to prevent foreclosure. Daniel, 51, drove from Memphis, Michigan to the forum looking for assistance. He returned from Iraq six months ago where he served in the Air Force. "My income is now half of what I was making before I left. My property value is down $65,000—about 25 percent. My lender is Washington Mutual. I cannot tell you how many times I have called them only to be switched from person to person, from state to state. I was told that it would be better to be 90 days in arrears and then they would talk to me. Meanwhile all kinds of late fees are now involved. And I cannot refinance.

"I am working two jobs and starting a third to try to keep my home. Six years ago I got an ARM, which I was told was the next best thing to sliced bread. This situation is very distressing. What are we supposed to do? I cannot eat the bricks and the mortar."

Many people also relied on refinancing to get money out of their homes in order to cover rising living costs, particularly as wages and salaries either stagnated or decreased. In the end, while the Wall Street banks and wealthy investors made a windfall, workers were left with crushing levels of personal debt.

Previously many workers found it difficult to get bank loans due to the uncertainty of their job status, inadequate income, or a poor credit history. But all that changed as the Federal Reserve dropped interest rates and banks loosened credit restrictions.

Predatory lenders came on the scene offering deals that required no down payments or serious income documentation. "Liar loans" is the term often used for such loans. Borrowers were seduced into taking on ever larger amounts of debt with the unstated promise that real estate values would continue to rise and homeowners saw the "equity" in their homes rise, even though they paid little or nothing towards the principle on their loans.

Thelma Curtis faces foreclosure on a home she has lived in for 35 years. "The lenders came into my neighborhood pushing these 'balloon' mortgages. They said your house might be worth $85,000 but we can get it appraised for $120,000. Without actually paying down the principle you owed this made it look like you had increased your equity in the house. They even told me they would make a W-2 (income statement) up in order for me to qualify for a loan.

"I took money out, all of the equity in the house—like so many others—to help my grandson. With all the money out of the house and the bank foreclosing on us—what is to become of us?

"The chickens are coming home to roost with this subprime mortgage scam. This was not secretive; you could see an atrocity was coming but it got a lot of people sucked in.

"There should be a moratorium on payments to the banks to save peoples' homes. We are suffering through an economic tsunami and there are not enough park benches in the state to accommodate all the homeless people that are being created."

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