

US housing slump “without precedent”: foreclosures up 121 percent over 2007

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Foreclosures in the US continued to climb in the second quarter of 2008, experts acknowledge that the current housing slump is “without precedent” in the modern era, and the resulting stress is taking both an economic and emotional toll: a 53-year-old Massachusetts woman committed suicide July 22 only hours before her family’s home was to be put up for auction.

In the three-month period April through June, some 740,000 foreclosure filings were recorded in the US, an increase of 14 percent over the first quarter and 121 percent over the same period in 2007. According to RealtyTrac, one in every 171 US households received a filing, which includes notices of default, auction sale notices and bank repossessions.

The banks took back some 220,000 homes in the second quarter (and 370,000 in the first six months of the year) and there are presently 18.6 million homes in the country standing empty, the highest number in history. The number of vacant houses has jumped nearly 7 percent in the last year.

California’s Central Valley “remains ground zero” for foreclosure filings, as CNNMoney notes, with one in every 25 houses in Stockton affected, for example. Riverside-San Bernardino, east of Los Angeles, had the second highest rate with one filing for every 32 households. Las Vegas, Nevada and Bakersfield and Sacramento, California were the others among the top five regions.

California as a whole witnessed another 203,000 foreclosures; Nevada had the highest rate, one in every 43 households. Phoenix, Arizona saw a 534 percent increase in foreclosures in the first half of 2008. Its west and southwest sides had increases of 700 percent or more.

Outside the Sun Belt, Detroit is suffering the most of any major center, with one filing for every 66 homes in the second quarter. In Ohio, Toledo (one in 92), Akron (one in 93) and Cleveland (one in 108) have also been hit very hard.

RealtyTrac, the Irvine, California-based data company, reported that 48 of the 50 states and 95 of 100 major city regions witnessed year-over-year increases in foreclosure activity.

The firm has doubled the projected number of foreclosures in 2008 to about 2.5 million.

Previously foreclosed homes are now making up a growing

percentage of existing home sales in some areas. In San Joaquin and Merced counties in California, seven in ten existing-home sales in the second quarter involved properties that had experienced foreclosure in the previous year. Foreclosed houses and condominiums made up 41 percent of existing-home sales in California in April, May and June.

The National Association of Realtors reported Thursday that sales of existing homes in June were lower than expected and had hit their lowest level in a decade. Sales by homeowners declined last month to a yearly rate of 4.86 million, down 2.6 percent from the 4.99 million annual rate in May. This is slowest pace since the first three months of 1998.

The existing home sales rate is down 15.5 percent from June 2007. Economists had predicted sales at an annual rate of 4.95 million.

The median price for a house sold in June 2008 was down 6.1 percent from one year earlier.

Despite lower house prices, mortgages rates are increasing, so that “the total mortgage price is under upward pressure,” notes CNNMoney, further discouraging sales. The 30-year fixed rate mortgage rose to 6.63 percent in the week ending July 24, up from 6.26 percent the week before.

Bill Gross, manager of the world’s largest bond fund at Pacific Investment Management, estimates that as many as 25 million US homeowners risk owing more than the values of their homes, a condition known as “negative equity.” This will lead to further foreclosures and widespread financial hardship. The bill currently being passed in Congress may assist at most 400,000 homeowners, according to the claims of its own advocates. In any event, Brian Bethune, an economist at Global Insight, points out that while the bill “has some very positive elements ... it would be very easy to negate those elements if mortgage rates keep rising.”

Gross of Pacific Investment estimates that financial firms have already suffered \$467 billion in credit losses and asset writedowns. He argues that a total of \$5 trillion worth of mortgage loans are in “risky asset” categories, and that “nearly [\$1 trillion] of cumulative losses will finally mark the gravestone of this housing bubble.” If financial firms write down this massive amount, it will result in sharply reduced bank lending and produce a fire sale of assets.

A special commentary prepared by the Wachovia Bank's Economics Group, "How Far Will Housing Prices Fall?" released July 14, revealed the current perplexity of the banking and financial experts. The report noted: "We are repeatedly asked how far housing prices will fall and when home prices will bottom out. The answers to these questions are complicated. The current housing slump is without precedent, both in terms of breadth and magnitude."

According to the National Association of Realtors, the authors explain, the median price for an existing home "has fallen 6.8 percent over the past year and has been down on a year-to-year basis for the past 22 months. Prior to the recent string of declines, the median price of an existing home had never declined for more than two months in a row, except once back in 1990."

Wachovia's analysts tentatively estimate that housing prices will ultimately have dropped anywhere from 22 to 29 percent from their peak in 2005, a massive decline in the value of the only significant asset most American families own.

Knight Ridder's Washington bureau noted July 20, "For many homeowners, the deep housing slump feels like a drop off a skyscraper. Every time another 15 floors have passed, there seems to be more room to fall."

It seems so safe to predict that the suicide of Carlene Balderrama in Taunton, Massachusetts, southwest of Boston, will not be the last such tragedy produced by the housing slump.

The distraught woman, mother of one son, shot herself Tuesday afternoon after sending a fax to her mortgage company alerting them of her intention. The company was planning to sell her foreclosed home at 5 pm.

Taunton Police Chief Raymond O'Berg read a portion of the fax to the media: "By the time you foreclose on my house I'll be dead." In a suicide note, she asked her family to use the life insurance money to pay off the debt.

Horribly, Balderrama's husband, a plumber, arrived home from work to discover police with his wife's corpse, unaware of the impending auction. "He told us she handled all the finances," Police Chief O'Berg said. "He had no idea the house was being foreclosed on." Potential buyers also arrived while the dead woman's body was still inside the home.

The media reports that since John Balderrama bought the \$232,000 three-bedroom house in Taunton in 2002, he had attempted to file for bankruptcy three times, and the mortgage company had twice launched foreclosure proceedings. Balderrama was earning about \$95,000 a year as a plumber. He said that in her suicide note his wife explained "that it got overwhelming for her."

O'Berg told the media, "It is a tragedy ... There's victims all around in this ... Something's wrong with the system when you have working people being foreclosed on." The housing crunch, the police chief said, "is inflicting real pain on middle-class America. Put yourself in her shoes. You handle the

finances, and you're hiding everything from family. It's a lot of pressure."

WHSM television reported, "Neighbors said it is a sign of the times."

Bruce Marks, chief executive of the Neighborhood Assistance Corporation of America, told the *Boston Globe* that it was not uncommon for homeowners to contemplate suicide when they were not able to keep up their mortgage payments.

"What gets us so angry is that people blame themselves," Marks observed to the newspaper. "They can't see past their sense of responsibility to see the responsibility and the predatory nature of these lenders. The fact of the matter is, unless something dramatic happens, there's going to be more and more people like her taking their lives."

Emails from readers posted by the *Taunton Call* about the episode provide some indication of popular sentiment.

Wrote one reader: "My heart goes out to this family. How tragic that she felt that she needed to take her life. Mortgage companies are so heartless that I am sure they still care more about auctioning off this house than the family of this poor woman. I am sure buyers will be lined up tomorrow. What a very sad sign of the times!"

Another commented: "I have pleaded in the past with my mortgage company to work with me on my rates because I was stupid not to read the whole 10 thousand pages when I bought my house and now I'm stuck with a mortgage that will go up every 6 months. I'm on my way to foreclosure and I don't know where to go as a single parent with 3 kids. A mortgage company shouldn't feel sorry for people, but have a heart if someone is trying the hardest to pay the mortgage—then give them a little time."

A third wrote: "Most people who read this article will probably say to themselves 'of course they foreclosed the house, it's the law, they had too.' The sad truth is that they are right because that is how the world works. This article should be an eye-opener to anyone who reads it. It clearly shows how disgusting and ridiculous the system of government we live under is. Just the fact that people are driven to suicide simply because of 'financial pressure' is horrible. In America people are supposed to have a right to life, liberty and the pursuit of happiness, but this story revokes all those rights. Situations like these disgrace the good intentions that the fathers of this country once fought for. I see this as banks (and other money collecting companies) having the right to take from clients even when it may result in death."



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