US foreclosure filings rose 53 percent in June

David Walsh
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The most recent data on home foreclosures give an indication of the human cost of the US housing market collapse. Foreclosure filings were up 53 percent in June from a year ago and bank repossessions soared 171 percent, as falling property values forced more and more people out of their homes.

According to RealtyTrac, in the course of June one in every 501 American households either lost a home to foreclosure, received a default notice or was warned of an impending auction.

Rich Sharga, RealtyTrac's vice-president for marketing, told Bloomberg News that foreclosure activity is the highest since the Depression. He noted that falling home prices have created a cycle where shrinking equity is driving homeowners into foreclosure, which further depresses prices. "We'll have 1 million bank-owned properties by the end of the year," Sharga said. "That will represent between one-fourth and one-third of all home sales."

Nationwide, more than 250,000 homes received at least one foreclosure-related notice in June. Economists are predicting 2.5 million US homes will enter the foreclosure process this year, compared with 1.7 million in 2007. This spring, a Credit Suisse report estimated that 6.5 million loans would fall into foreclosure over the next five years, affecting more than 8 percent of all American homes.

The figures in certain areas are staggering. In Stockton, California one in every 72 households is currently in a stage of foreclosure. In Merced, California the figure is one in every 77 households, and in Modesto, California it is one in every 86.

In the state of Nevada as a whole (with 2.5 million residents), one in every 122 households is in the process of losing a home. More than 3,000 properties were seized by lenders in June alone. In California, banks repossessed more than 20,000 properties last month, more than a quarter of the national total, and one in every 192 households was undergoing foreclosure.

Soaring gas prices are contributing to the woes of families that moved out of urban areas. "The housing beyond the sprawl is going to suffer another serious leg down because of high oil prices," Peter Navarro, professor of economics and public policy at the University of California in Irvine, told the media. "A lot of people went out there to get cheaper homes, but this [gas prices] is going to take a big bite out of their mortgage."

Meanwhile, the total of new homes that have been completed and are available for sale was up 35 percent in May over June 2006. The average length of time they have been sitting on the market unsold has climbed 136 percent in that period, from 3.6 to 8.5 months. According to Floyd Norris in the *New York Times*, the latter figure is the highest ever recorded by the government.

Norris noted, "Some of those homes are in subdivisions where foreclosures are already climbing, and may be hard to unload at any price... May was the *first month ever* that sales of completed new homes totaled less than 10 percent of the number of such homes that had been available for sale at the beginning of the month."

The working class is suffering enormously, and worse is still to come. A report from the Washington-based Center for Economic and Policy Research (CEPR), entitled "The Impact of the Housing Crisis on Family Wealth," paints a dire picture. Authors Dean Baker and David Rosnick make the point that average Americans have been the victims of "two extraordinary asset bubbles in the last decade," a "stock bubble" that began in the mid-1990s and collapsed in 2000-2002, and the housing bubble, which began to deflate in 2006.

These speculative bubbles, which poured billions of dollars into the pockets of financial operators, made it difficult for families to plan their savings "since they would have no simple way to distinguish bubble-generated wealth, which would prove ephemeral, from real wealth, which could be expected to endure. As a result, tens of millions of families likely ended up saving less than they would have considered prudent ..."

The authors note that the housing bubble has had the most serious consequences. By 2004, more than two-thirds of American families headed by people 35 years old and older owned a home, and this "is usually a highly leveraged investment. Families typically rely on mortgages for the overwhelming majority of the purchase price, and even after they have been in a home for several years, the value of the home can easily be five times their equity or more. As a result of this leverage, even small changes in housing values can have a large impact on family wealth."

US homeowners, they argue, have been taken "on a gigantic roller coaster ride." With the collapse of the housing bubble, many now find themselves "with much less wealth than they expected at this point in their careers."

The decline in housing prices since the middle of 2006 has resulted in the loss of over $4 trillion in real housing wealth in the US, more than $50,000 for every homeowner in the country. Real house prices are dropping at the rate of 2 percent a month, or $350 billion.

The CEPR study projects median household wealth for various age groups in 2009 if house prices fall another 10 percent below their March 2008 level. According to Baker and Rosnick, an additional 10 percent drop in house prices will mean, for the median family in the age cohort from 18 to 34, a 67.6 percent drop in net worth as compared to 2004. The median family in the 35-44 age group will have 56.2 percent less net worth, which “corresponds to a decline of $41,000 in median wealth.”

Families in the 45 to 54 age cohort will have 34.6 percent less in 2009 than their counterparts in 2004, and the median family aged 55-64 will have $121,000 less wealth than families in that age bracket five years earlier, a decline of 43.9 percent.

The authors note that “the crash of the housing bubble is likely to eliminate most, if not all, of the gains that families have made in accumulating wealth over the last two decades.” Families in the 35-44 age bracket are projected to have less wealth than their counterparts in 1989. “For those who owned a house in the last few years, the collapse of the housing bubble led to the destruction of much or all of their wealth.”

The housing bust threatens to spark a full-scale meltdown of the financial system. Two enormous US financial firms, Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Mortgage Corporation), are facing insolvency. The two government-sponsored, privately held companies currently own or guarantee some $5.2 trillion in residential mortgages, nearly half of all outstanding home loans in the US. In the nine months from July 2007 through March 2008, Fannie Mae and Freddie Mac lost a combined $11 billion and are finding it increasingly expensive to raise capital to cover their losses.

The two firms operate in the secondary mortgage market, buying mortgages from banks and other lenders, packaging those loans into securities and selling them to Wall Street investors.

Fannie Mae and Freddie Mac have performed a vital function for American capitalism by lubricating and widening the housing market, coming to particular prominence during the recent boom. However, they are highly leveraged and very loosely regulated institutions, with massive amounts of mortgage assets whose values are now increasingly dubious.

Shares in the two mortgage finance companies continued to plummet Thursday, with Fannie Mae’s share price down 22 percent this week and Freddie Mac’s down 43 percent, over worries that the firms will not have enough capital to offset losses from the housing slump. The *New York Times* observed that the deteriorating share price numbers “were unimaginable just weeks ago.”

In an interview with *Bloomberg.com* Wednesday, former St. Louis Federal Reserve President William Poole asserted that under fair value accounting rules the two companies would be bankrupt. “Congress ought to recognize that these firms are insolvent,” he said.

The collapse of one of the two companies, or both of them, would have a devastating impact. Speaking of this “doomsday scenario,” *CNNMoney.com* wrote July 9 that if one or both of the companies could not function, “the result would be chaos.”

Sean Egan of credit ratings firm Egan Jones commented, “If Fannie or Freddie failed, it would be far worse than the fall of [investment bank] Bear Stearns... It could throw the economy into depression or something close to it.”

The *Wall Street Journal* revealed Thursday that Bush administration officials are holding talks about the possible failure of Fannie Mae and Freddie Mac. While administration officials continue to assert publicly that the government will not back the debt of Fannie Mae and Freddie Mac, the *Journal* cites the comments of Peter Wallison, a former Treasury Department official: “They can’t be allowed to fail... The losses would extend through so much of our economy, and so much of the world economy. There is simply no way that the United States government can let it happen.”

It is increasingly likely that the American population will be forced to pay for the disaster brought about by years of parasitic and reckless financial operations. Standard & Poor’s reported this spring that a bailout of Fannie Mae and Freddie Mac would cost US taxpayers $1 trillion, more than five times the amount of the savings and loan bailout (taking inflation into account) of the late 1980s and early 1990s.

This is an indictment of American capitalism and its cult of the “free market.” The blind and anarchic operations of the profit system threaten the population with catastrophe. Society can no longer afford the rule of this corrupt, greedy elite, none of whose political representatives, Republican or Democratic, have any solutions for the crisis.