Study reports worst of US mortgage crisis still to come

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A recent Deutsche Bank report made public last month indicates that the mortgage crisis for US homeowners is still in an early phase, and the worst is still to come.

According to the report by analysts Karen Weaver and Ying Shen, by 2011, half of all US mortgage holders will be "underwater," meaning they will owe more on their homes than they are worth (negative equity). In terms of overall numbers, this translates into 25 million homes.

Prime conforming loans, which presently make up two-thirds of all current mortgages, will be most affected by the ongoing decline in residential real estate values, according to the Deutsche Bank report. These loans are available only to those potential buyers with good credit ratings, as opposed to sub-prime loans that were routinely made available to low-income buyers with a flawed credit history.

The report states that 69 percent of sub-prime loans will be "underwater" by 2011. Homeowners with adjustable-rate mortgages or ARMs—whose interest rate is tied to the prevailing Fed funds rate—are predicted to suffer the greatest loss of home equity value, with a staggering 89 percent of these homeowners expected to be "underwater" by 2011. Presently, 77 percent of homeowners with ARMS have negative equity in their homes.

According to Reuters, areas suffering the worst negative equity rates are in California, Florida, Arizona, Nevada, Ohio, Michigan, Illinois, Wisconsin, Massachusetts and West Virginia. "Las Vegas and parts of Florida and California will see 90 percent or more of their loans underwater by 2011," according to Reuters.

An August 21 article in the *Miami Herald*, "Florida foreclosures on rise" by Monica Hatcher, cites Jay Brinkman, chief economist of the Mortgage Bankers Association, who states that Florida is presently the worst hit state, with 23 percent of all home mortgages either past due or in foreclosure. According to the article, "That figure represents 807,000 loans, a staggering sum of the roughly 3.5 million mortgages outstanding in Florida."

According to Richard Schram of the National Foundation for Credit Counseling in Silver Springs, Maryland, the foundation's 106 member agencies and nearly 850 local offices throughout the country have seen a 1,166 percent increase in mortgage counseling from 2005 to 2008.

The average yearly income for these homeowners is $51,243, with an average family size of 3.3 members. Schram notes that the average monthly negative income of these clients is $1,286, while their average amount of unsecured credit debt, usually credit cards, is $18,625. Job loss and/or health issues are the main reasons why these homeowners get behind in their mortgage payments. Falling income due to reduced working hours is the second leading cause of mortgage problems.

A whole new breed of predatory scam artists has cropped up to prey upon these homeowners in crisis, calling themselves "mortgage consultants" and offering "foreclosure services" in an effort to lend their shoddy operations an aura of respectability.

One of the most common schemes employed by these con artists is the "Bait and Switch," where the homeowner does not fully understand that he/she is actually selling his/her home in exchange for a rescue that means nothing.

Another tactic, "The False Intermediary," forbids a homeowner from talking to the lender, credit counselor, or anyone else so that assistance can be sought to

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negotiate a way out. Sometimes, homeowners are required to make all mortgage payments to these “intermediaries,” resulting in the bank foreclosing on the loan and the scam artist pocketing the alleged mortgage payments.

The “Rent to Buy” scheme is a method whereby the homeowner surrenders his home to the illegitimate operator in the hope that by paying rent he/she will be able to buy the home over time. The terms of such a buy-back are usually stacked against the original homeowner, with the resale value well above market value. Rental fees are often hiked significantly over time. If the former homeowner misses a rent payment he/she is evicted and the “rescuing” owner is now free to sell the home.

The mortgage crisis is directly related and an integral aspect of the meltdown of the banking system. Although the liquidity crisis for the American banking sector began with the massive souring of the sub-prime market, the current ongoing mortgage crisis is now affecting the entire range of mortgage lending.

The Two Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash by Charles R. Morris, published in 2008, gives some idea of the amount of bad home mortgage loans presently on the books of US banks.

Since according to Federal Reserve banking requirements banks can lend out $10 for every one-dollar booked as an asset, which is what a performing mortgage loan can be considered, the amount of money effectively being drained from the US economy would be $20 trillion.

What this has in fact meant is that banks can no longer make the kinds of essential loans that are necessary in order for businesses to expand, increase inventories and increase employment to match population growth and market demand for product and services.

The crisis in banking and finance is compounded by the fact that so many different types of loan products were “sliced and diced” into exotic derivative investment instruments designed and sold to other major financial institutions as a sound high yield investment. This also served as a way of leveraging the risk incurred by the banks that were engaging in shady and duplicitous lending practices.

Such practices were designed to maximize their corporate growth potential in an industry where the very survival of any particular bank was directly related to its ability to grow and take over less well performing, i.e., slower growing financial institutions.

The government essentially covered the bad gambling debts of the banks and big financial houses. The handover of trillions in public assets to the banks shored up their bottom lines and accelerated the monopolization of the finance industry in the hands of a few mega-banks. At the same time it has done nothing to provide relief to tens of millions of homeowners facing the loss of their houses.

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