Record US foreclosures in 2009

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A record 2.82 million homes faced foreclosure foreclosed in 2009, according to RealtyTrac, a web-based firm that tracks and markets foreclosed homes. It is anticipated that at least 3 million more homes will enter foreclosure in 2010.

Last year saw an increase of 21 percent in the number of homes in foreclosure from 2008, in spite of President Barack Obama's much-vaunted "housing rescue." In all, 1 in 45 US homes was subject to at least one foreclosure filing, or 2.21 percent of all homes, compared with 1.84 percent in 2008, 1.03 percent in 2007, and 0.58 percent in 2006, according to RealtyTrac's "Year-End 2009 Foreclosure Market Report." The report compiles the number of separate homes that received default notices, faced foreclosure auctions, or were repossessed by banks.

The new year is expected to be worse. "As bad as the 2009 numbers are, they probably would have been worse if not for legislative and industry-related delays in processing delinquent loans," said James Saccacio, CEO of RealtyTrac. Saccacio cited a series of factors that contributed to delaying foreclosures in 2009, among them trial loan modifications, state legislation lengthening the foreclosure process, and the sheer volume of inventory "clogging the foreclosure pipeline," as *MarketWatch* put it.

"In the long term, a massive supply of delinquent loans continues to loom over the housing market, and many of those delinquencies will end up in the foreclosure process in 2010 and beyond, as lenders gradually work their way through the backlog," Saccacio said.

The trend for 2010 may have been anticipated by the sudden increase in foreclosure filings in December 2009. Foreclosures that month increased by 14 percent from November 2009 and 15 percent from the previous year.

Banks repossessed a record 918,000 homes last year, a 6.5 percent increase over 2008. This number could increase rapidly, with 1 million more homes in the process of foreclosure and by 5.5 million currently-delinquent mortgages. The consequences for home values—the major source of wealth for most US families—when these properties enter the housing market will be severe. Home prices have already fallen by 30 percent since October 2006, according to the Case-Schiller Index.

"The doomsday prognostications say that gives you 7 million properties that are all going to go back to the banks, that are all going to hit the market at the same time and we're going to have a smoking crater where there used to be a real estate market," Sharga said, adding that RealtyTrac expects a less catastrophic, but still bleak, situation. "Because of gradual foreclosure bank sales we're looking at a long, slow, flat housing market recovery that probably won't feel much better until about 2013," he said.

The Sun Belt states of Nevada, Arizona, Florida, and California continued to lead in foreclosure rates. In Nevada, more than 10 percent of all housing units were in the process of foreclosure in 2009; in both Arizona and Florida the figure was about 6 percent. In California, 632,573 homes received a foreclosure filing in 2009, or 4.75 percent of all homes, just under 1 in 20.

A number of other states had foreclosure rates above the national average of 2.2 percent, or more than one in every fifty homes. These include Utah (2.93 percent), Idaho (2.72 percent), Georgia (2.68 percent), Michigan (2.61 percent), Illinois (2.50 percent), and Colorado (2.37 percent).

The latest foreclosure statistics are indisputable proof that President Obama's "Making Home Affordable Act," launched in March, has done nothing to lessen the housing crisis. The $75 billion program offered banks rich incentives to renegotiate payment plans, but ruled out reductions in mortgage principal, or outstanding loan balances. The banks refuse to take any loss on these vastly overvalued loans.

"Until the lenders start to get into principal balance reduction you're going to continue to see high redefault rates," Rick Sharga, senior vice president at RealtyTrac, said. "We haven't seen any appetite for that on the part of the lenders yet."

The RealtyTrac data is the latest to suggest the "housing recovery" has fallen flat. The National Association of Realtors reported in early January that future home sales—contracts agreed upon but not finalized—fell by 16 percent in November, more than three times what economists had anticipated.

Driving the foreclosure crisis is the impoverishment of broad sections of the US population through unemployment and pay cuts.

First-time jobless benefit claims rose unexpectedly this week, by 11,000 to 444,000. Some economists took cheer from the fact that the four-week moving average for first-time benefit seekers fell to 440,750, the lowest figure since August 2008. For these statistics to demonstrate a meaningful improvement in the jobs crisis, however, there would have to be evidence of increased hiring or job availability. This is not the case.

The Labor Department reported Tuesday that the number of job openings fell again in November by 100,000 positions, to 2.4 million. With more than 15.3 million people out of work and looking for a job, the ratio of job seekers to open positions was greater than six to one, the largest differential on records dating back to December of 2000. Counting the unemployed and underemployed, the ratio balloons to 11 to 1. The pace of hiring also remained at lows not seen since data collection began ten years ago.

On January 8, the Labor Department announced that the US economy lost 85,000 jobs in December. The unemployment rate stayed above 10 percent, while the broader "U-6" measure of unemployment increased to 17.3 percent, as 661,000 workers fell out of the labor force. The same day, United Parcel Service (UPS) and defense contractor Lockheed Martin announced 1,800 and 1,200 job cuts.

In the intervening week, layoff, job cut, and pay reduction announcements continued.

On Friday, Universal Music Group announced 50 layoffs. The bankrupt recycled paper concern, Smurfit-Stone Container Corp., said it would close four more plants and cut 600 jobs this year.

On Thursday, Louisiana State University administrators revealed that they intend to lay off "several hundred" non-tenured instructors over the next year, and Southeast Missouri State University said it will dismiss 24 workers by the end of the school year. The same day Chicago law firm Seyfarth Shaw laid off 40 lawyers and staff.

On Wednesday the submarine manufacturer Electric Boat, a subsidiary of General Dynamics Corp., announced that it will lay off between 400 and 600 workers and force as many as 200 furloughs in the coming months. Primarily affected will be waterfront workers at shipyards in Connecticut and Rhode Island.

On Tuesday, the Riverside County (California) Board of Supervisors said that hundreds of county workers will be laid off or forced out over the next two years in order to meet its budget deficit.

On Monday, the internet firm AOL began laying off 1,200 workers as part of 2,300 total job cuts, and pharmaceutical giant Pfizer began sending layoff notices to 680 workers made redundant by its acquisition of rival Wyeth.

Workers who still have jobs are facing declining wages. The Labor Department reported this week that inflation-adjusted weekly earnings fell by 1.6 percent in 2009, while a broad measure of inflation, the consumer price index (CPI), rose by 2.7 percent. Inflation was paced by energy prices, which jumped by 18.2 percent in 2009, the steepest increase since 1979. Gasoline prices recorded a record increase of 53.5 percent.

Amidst layoffs, wage cuts, rising prices, and rapidly deteriorating home values, consumers continue to cut back on spending. The US Commerce Department reported on Thursday that retail sales fell by 0.3 percent in December, startling economists who had widely expected an increase. For the year as whole, retail sales were down 6.2 percent over 2008, the worst decline on record.

The decrease in retail sales is likely to exacerbate the broader crisis. Consumer spending, a substantial proportion of which is retail sales, accounts for approximately two-thirds of US gross domestic product and is a major source of tax revenue for state and local governments.