US home repossessions set record in April, foreclosures plateau at “very high level”

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14 May 2010

Banks in the US repossessed 92,400 homes in April, a record number and 45 percent higher than in April 2009. At the present rate, with more than 350,000 houses taken over by lenders in the first four months of 2010, more than 1 million American homes will be repossessed this year. In 2009, 918,000 repossessions took place, a 6.5 increase over the previous year. Behind these dry figures lie social dislocation and misery for millions.

One in every 45 US households was affected by at least one foreclosure filing (default notice, scheduled auction or bank repossession) last year, almost four times higher than the 2006 rate.

Driving the ongoing housing crisis are chronically high levels of unemployment. With nearly 27 million people jobless or underemployed, and wages stagnating or declining, there is no reason to expect the foreclosure and repossession epidemic to subside.

According to RealtyTrac, the total number of foreclosure filings in April declined by 9 percent over March, to 333,800, down 2 percent from April 2009. Nonetheless, April marked the 14th consecutive month with more than 300,000 foreclosure filings.

Nevada’s foreclosure rate ranked highest in the nation for the 40th straight month; 1 in every 69 housing units in the state received a foreclosure filing in April, five times the national average. In Arizona, which had the second worst rate, 1 in 169 housing units received a notice, while in Florida and California 1 in every 182 and 1 in every 192 properties, respectively, received a foreclosure filing. The rest of the top 10` were Idaho, Michigan, Illinois, Georgia and Colorado.

More than 19,000 Michigan properties received foreclosure filings in April, up 77 percent from April 2009.

Following the release of the figures, RealtyTrac CEO James Saccacio suggested that foreclosure activity “had begun to plateau, but at a very high level that will not drop off in the near future.”

Another company official, by implication, punctured the notion that the decline in default notices meant a material improvement in the housing situation. In an e-mail to the media, RealtyTrac executive vice president Rick Sharga commented, “Right now it appears that the banks are focusing on processing the loans already in foreclosure, and slowing down the initiation of new foreclosure proceedings as a way of managing inventory levels. We’ll probably see this trend continue for a while.”

Sharga suggested that 5 million delinquent home loans will probably end up in the foreclosure process, in addition to the 1.2 million homes already taken back by lenders. “The underlying conditions—mostly unemployment and millions of ‘underwater’ loans—haven’t improved,” he said.

Nearly one in four mortgages in the US is calculated to be “underwater”—i.e., the homeowner owes more than the house is worth. Zillow.com in Seattle estimates that the percentage climbed to 23 percent in the first quarter of 2010, up from 21 percent at the end of 2009, while CoreLogic, a financial data provider, puts the figure around 25 percent already. According to the latter firm, writes CNNMoney.com, “The total of negative equity in these deeply underwater borrowers is a whopping $655 billion.”

Increasing numbers of US homeowners are simply “walking away” from their houses, “because their value has dropped so precipitously,” notes CNNMoney. “These ‘strategic defaults’ now account for nearly one in three foreclosures,” according to a recent report from the University of Chicago. “Some homeowners walk away…because they realize that they will never recoup the losses.”

The federal government’s tax credit for first-time homebuyers expired April 30. Peter G. Miller, on the RealtyTrac website, writes, “The result is that a housing market that had begun to stabilize will now be set back as demand wanes, meaning that prices will soften.” (“Are We Headed For A New Real Estate Decline?”) A commentator on the *Boston Globe* website points out that a top Bank of America executive told a recent conference that the bank is “projecting a 600 percent increased in foreclosures by year end,” from 7,500 a month to 45,000 by December.

Handling foreclosures and repossessions has itself become a major (and lucrative) industry. RealtyTrac points to the following trend: “There are so many repo properties that lenders are hosting mass auctions nearly every weekend in California, Florida, Michigan, Nevada, Arizona and other states, where banks are cutting their losses from millions of

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dollars of bad debt. In fact repossessed bank-owned properties are so popular now that realtors nationwide are hosting repo home tours, filling small buses with repo buyers and taking them to foreclosed homes."

The staggering number of foreclosures and repossessions is intimately linked to the impact of the recession, the most severe economic crisis since the 1930s. Jay Brinkmann, chief economist of the Mortgage Bankers Association, pointed to the obvious in a recent statement, "The pattern of mortgage delinquencies now very much follows the pattern of unemployment.… Just as long-term delinquencies now dominate total mortgage delinquencies, long-term unemployment now dominates the total unemployment number.… Until the issue of this large segment of long-term unemployed is resolved, many of the longer-term mortgage delinquencies will remain a problem with a strong likelihood of turning into foreclosures."

The Obama administration's housing policy, which alternates between a state of obvious indifference and various public relations stunts, is guided by a single principle: the vast profits of the banks and other lenders must not be impinged upon. This makes seriously assisting the millions in need of relief from the predatory financial institutions an impossibility.

An article on the Reuters website in January ("U.S. 2009 foreclosures shatter record despite aid") pointed out, "State, federal and private efforts to modify loan terms for at-risk borrowers either don't go far enough or are expanding too late to help many struggling homeowners on a permanent basis, many industry experts and economists agree.

" '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 in an interview.

" 'We haven't seen any appetite for that on the part of the lenders yet,' he added."

Indeed, "principal balance reduction" is the last thing on the minds of bankers and Obama administration officials alike.

In a report issued April 14, the Congressional Oversight Panel, the body assigned by Congress to oversee the bank bailout, takes the administration and its Treasury Department to task for its miserable response to the crisis.

After first noting that when the panel had last examined the housing situation in October 2009, "two years into the foreclosure crisis," Obama's "Home Affordable Modification Program" (HAMP) had "permanently modified the mortgages of only 1,711 homeowners," the panel goes on: "Despite Treasury's efforts, foreclosures have continued at a rapid pace. In total, 2.8 million homeowners received a foreclosure notice in 2009.…

"Treasury's response continues to lag well behind the pace of the crisis. As of February 2010, only 168,708 homeowners have received final, five-year loan modifications—a small fraction of the 6 million borrowers who are presently 60+ days delinquent on their loans. For every borrower who avoided foreclosure through HAMP last year, another 10 families lost their homes. It now seems clear that Treasury's programs, even when they are fully operational, will not reach the overwhelming majority of homeowners in trouble."

The report points out that HAMP's stated goal is to offer "loan modifications" to several million people, but that only some of these will result in even temporary modification, and only some will convert to "final, five-year status." The panel writes: "Even among borrowers who receive five-year modifications, some will eventually fall behind on their payments and once again face foreclosure. In the final reckoning, the goal itself seems small in comparison to the magnitude of the problem." The latter is an understatement.

The HAMP program only reduces payments, it does not reduce the total principal of a mortgage; therefore, the Congressional Oversight Panel observes, "many borrowers continue to experience severe financial strain," paying on average *59 percent* of their total income "on debt service, including payments on first and second mortgages, credit cards, car loans, student loans, and other obligations." Furthermore, the HAMP modification does not reduce the total principal, "meaning that a borrower who was underwater before receiving a HAMP modification will likely remain underwater afterward."

The panel points to "a precarious future" for most borrowers who proceed through Obama's HAMP program. "Many will have no equity in their homes and are likely to question whether it makes sense to struggle so hard and for so long to make payments on homes that could remain below water for years. Many borrowers will eventually redefault and face foreclosure.… The redefaults signal the worst form of failure of the HAMP program: billions of taxpayer dollars will have been spent to delay rather than prevent foreclosures." Bank profits, however, will have been protected.

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