Job crisis drives rise in US home foreclosures

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In a week during which President Obama boasted in his State of the Union address that he had “broken the back of the recession,” data from the US housing and job markets painted the opposite picture.

In 2010, foreclosures increased in nearly three quarters of the 206 major metropolitan areas surveyed by the online foreclosure marketing firm RealtyTrac. This rise more than offset a slight decline in foreclosure levels in some of the hardest hit areas of California, Nevada, Arizona, and Florida.

The foreclosure crisis is now growing in regions that were less exposed to bursts of the housing market bubble in 2007. Long-term unemployment is now the major driving force behind foreclosures.

“We’ve actually had a sea change in what’s causing foreclosures, from the overheated home prices and bad loans to a second wave of foreclosures actually caused by unemployment and economic displacement,” said Rick Sharga, a senior vice president at RealtyTrac.

While the social crisis barely rated a mention in Obama’s address to Congress, the number of long-term unemployed workers—those jobless for 27 weeks or more—reached 6.4 million last month. They account for 44.3 percent of the unemployed, according to the US Labor Department. The official jobless rate has remained above 9 percent for 20 months, longer than the deep recession of the early 1980s, and is expected to remain there throughout 2011.

This forecast was substantiated by a report on Thursday that new applications for jobless benefits jumped last week by 51,000 to 454,000, well beyond expectations. The Labor Department attributed part of the rise to backlogs in four southern states, which processed fewer claims the week before due to snowstorms. However, job cuts continue, and big corporations, sitting on a $2 trillion cash hoard, refuse to hire.

On Wednesday, the Chicago-based drug giant Abbott Laboratories said it would slash 1,900 jobs, or 6 percent of its US workforce, as part of a restructuring plan. The announcement came two weeks after Obama’s new chief of staff, William Daley, resigned from the company’s board of directors, where he served since 2004.

Houston, Seattle and Atlanta saw the biggest increases in home foreclosures among the 20 largest metro areas surveyed by RealtyTrac. Filings jumped 26 percent in the Houston area in 2010, increasing to 1 in every 62 households. The city has been hard hit by job losses, particularly in the airline industry, construction and the public sector. Unemployment has risen to 8.6 percent in November, up from 8.1 percent a year ago. In Seattle, foreclosures rose 23 percent. In Atlanta, they were up 21 percent.

Nationwide, 1 in every 45 homes received a foreclosure filing in 2010, according to RealtyTrac. Las Vegas still had the nation’s highest metro foreclosure rate, with 1 in every 9 housing units (10.9 percent) receiving a foreclosure filing in 2010. Cape Coral-Fort Myers, Florida, and Modesto, California, were second and third.

“We believe we’re going to see an abnormally high growth of foreclosure activity in the first quarter and we do expect that 2011 will be another record year for foreclosure activity and bank repossessions,” RealtyTrac’s Sharga said. He projects bank repossessions will rise by at least 20 percent.

Home foreclosures hit a record high last year, with approximately 2.8 million properties having actions taken against them in 2010, an increase of 2 percent over 2009. The number of properties repossessed by banks jumped 14 percent, to over 1 million.

The metro area with the highest number of repossessed homes was Phoenix-Mesa-Scottsdale in Arizona, where lenders seized 55,372 properties last year, up 17 percent from the year before. The Chicago metro area was second, followed by the Detroit-Warren-Livonia metro area in Michigan, which has been devastated by the downsizing of the auto industry.

Foreclosures and repossessions create a vicious cycle of dragging home values in a neighborhood down, which pushed more homeowners underwater—i.e., they owe more on their mortgage than the market value of their home. In turn, this triggers more foreclosures.

Housing prices, when measured year-over-year, have declined nationally for six consecutive months, according to the S&P/Case-Shiller Home Price Index. Only 4 of the 20 areas tracked by the S&P/Case-Shiller posted year-over-year price gains in November.

While shoring up the banks during the Wall Street bailout, the Obama administration has done nothing to protect working people being forced out of their homes. The administration's Home Affordable Modification Program (HAMP), which was tacked onto the bank bailout for publicity, has provided permanent mortgage modifications to only a small fraction of those in need.

The congressional oversight panel for the bank bailout pointed out last month that the program "will prevent only 700,000 foreclosures—far fewer than the three to four million foreclosures that Treasury initially aimed to stop, and vastly fewer than the eight to 13 million foreclosures expected by 2012."

Moreover, the plan does not entail any reduction to the principal owed by homeowners; it merely adjusts monthly payments. According to an article in the *Minneapolis Star Tribune* on Thursday, many who have sought help under the federal program are getting saddled with huge, unexpected bills. They are being forced to choose between going deeper into debt or foreclosing.

Instead of granting permanent modifications, lenders often reinstate the original loan terms and demand big back payments later on. Through November of last year, lenders canceled 729,109 trial modifications nationwide, the newspaper reported. Carl Christensen, a Minneapolis real estate attorney, told the paper he is getting 15 telephone calls a week from shocked borrowers. "The banks put out their hand and say, 'We're going to help you,' and then stab people right in the back," Christensen said.

The *Star Tribune* cited the example of Patti, 51, and Scott Weddle, 57, of Harris, Minnesota. They "were ecstatic when JPMorgan Chase offered in November 2009 to cut their monthly mortgage payments by about 20 percent under a trial modification. Patti was out of work with a neck and back injury, and the Weddles were having difficulty making ends meet.

"Nearly a year later, the Weddles were told that their application for a permanent modification was denied and that they would have to pay $24,228 to bring their mortgage current and avoid foreclosure. 'We did everything that was asked of us, and it only pushed us deeper in the hole,' Patti Weddle said."

The newspaper noted that the trial modifications also ruin borrowers' credit because lenders classify modified mortgages as technically in default, even if all the agreed-upon payments are made on time. Each month the borrowers make reduced payments, they are reported as delinquent to credit bureaus.

"We're seeing a lot of really sad stories of families who thought they were getting help only to discover they're $20,000 or $30,000 behind and about to lose their house," Thomas Bloomquist, housing supervisor for LSS Financial Counseling Services in Duluth, Minnestoa, told the *Star Tribune.*