Nearly 30 percent of US homeowners now "underwater"

Total value of homes fell $2 trillion last year

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Home prices in the US dropped 2.6 percent in the final quarter of 2010, the largest drop since the first three months of 2009, according to Zillow Inc's quarterly real estate survey. Year over year, home values were down 5.9 percent nationally, and have fallen 27 percent since their peak in June 2006.

The total value of US single-family homes fell a staggering $798 billion in 2010's fourth quarter, and for the entire year, more than $2 trillion.

The Obama administration has essentially washed its hands of the problems; its HAMP (Home Affordable Modification Program) has helped a fraction of those in need.

The number of US homeowners "underwater," i.e., owing more than their homes were worth, at the end of 2010, reports Zillow, jumped to 27 percent, up from 23.2 percent in the third quarter.

Furthermore, the report notes, "The rate of homes selling for a loss reached a new peak in December, with more than one-third (34.1 percent) selling for a loss. The rate of homes sold for a loss has increased steadily for the past six months."

Some 15.7 million homeowners had negative equity at the end of the fourth quarter, in households home to more than 40 million people.

The massive number of those underwater will "surely lead to higher foreclosure rates soon," notes CNNMoney, "because being underwater is second only to unaffordable payments in leading to foreclosure, according to Zillow's chief economist, Stan Humphries."

The number of those with negative equity swelled in the final quarter in part as a result of the slowdown in foreclosures, due to the scandal surrounding the banks' use of improper documentation and processes. With the moratorium largely lifted, foreclosures are expected to soar.

Economist Joseph Stiglitz, speaking at a conference in Mauritius February 9, predicted that another 2 million foreclosures would take place in the US in 2011, adding to the 7 million already recorded since the financial meltdown of 2008.

Banks repossessed 1 million homes in 2010, and this year is expected to be bleaker. Approximately 5 million borrowers are at least two months behind in their mortgage payments. Rick Sharga of Realty Trac Inc, which follows foreclosures, estimated that 1.2 million more homes would be repossessed by lenders in 2011.

One in 45 US households received a foreclosure filing in 2010. In Nevada, one in every 11 households received a filing; in Arizona, one in every 17; in Florida, one in every 18.

The Zillow report on fourth quarter housing prices contains some startling figures. Home values continued to decline in 123 out of 132 US metropolitan areas, some four years after the bursting of the housing bubble.

The Detroit metropolitan area, which has been battered by the economic crisis, saw housing prices drop another 7.5 percent in the quarter. Home values were down in Detroit in the fourth quarter of 2010 17.4 percent over the same three-month period a year earlier.

Only the smaller cities of Pueblo, Colorado (23.7 percent), Mobile, Alabama (18.5 percent), and Ocala, Florida (18.2 percent) suffered greater year-over-year declines.

The figures on negative equity are perhaps even more astonishing. Nearly *70 percent* of homeowners in Phoenix, Arizona (home to 4.4 million people) are underwater; houses there have lost 53.6 percent of their value from the peak in the summer of 2006. In Orlando, Florida (metropolitan area population 2.1 million), 61.7

percent of homeowners face the same situation; houses there have dropped 54.4 percent in value since their high point.

Of major US cities, Miami residents have experienced the largest drop in prices, 54.8 percent from their peak, although "only" 42.8 percent of homeowners face negative equity. In Sacramento, California, another center of the housing collapse, prices have dropped 47.4 percent since 2006, and 46.8 percent of homeowners are underwater.

In the Bay Area in northern California (home to 7.4 million people), house prices have dropped 31.8 percent since the heady days of the mid-2000s. Zillow's Humphries expects "a long, flat bottom [in prices] … Most markets will remain in malaise for an extended period of time." The *San Francisco Chronicle* goes on: "The reasons? The foreclosure pipeline is still clogged with properties, many homeowners are underwater and unemployment continues apace."

The situation in South Florida continues to be abysmal. Since their peak in June 2006, home values have declined 54.7 percent in the area, the worst showing among the top 25 markets covered by Zillow. Some 43 percent of homeowners in South Florida (population 5.5 million) owe more on their houses than the latter are currently worth. About 47 percent of those who sold homes in December took a loss.

Confronted with this disaster, which has ruined many lives and devastated entire communities, while effecting an overall drop in the living standards of millions of Americans, the Obama administration has hardly lifted a finger. It continues to make certain that the banks, whose predatory practices helped create the crisis, do not suffer any losses.

Obama's HAMP program has had virtually no impact on the problem. New data released by Fitch Ratings reveals, "The combined efforts of HAMP and other mortgage loan modification programs have made little more than a dent in the large volume of outstanding distressed loans," says Fitch's Managing Director Diane Pendley.

A report recently released by the Special Investigator General for the Troubled Asset Relief Program (TARP) declared that that HAMP "continues to fall dramatically short of any meaningful standard of success." When the HAMP initiative was launched, Obama predicted it would aid 3 to 4 million homeowners, only a quarter of those in need. In fact, the program has only resulted in half a million permanent modifications to date.

Of the 1.5 million who managed to hurdle the immense bureaucratic obstacles placed in their path and enroll in the program since spring 2009, some 800,000, or 54 percent, have dropped out.

The failure of HAMP is not accidental. It was a public relations effort by the Obama administration from the start. The administration's essential premise, that the profits of the banks and other financial institutions could not be cut into, made it impossible to organize a program that would assist ordinary homeowners.

A study on HAMP carried out by investigative journalists at ProPublica is scathing. It points to the level of government connivance with the banks, commenting: "With millions of homeowners still struggling to stay in their homes, the Obama administration's $75 billion foreclosure prevention program has been weakened, perhaps fatally, by lax oversight and a posture of cooperation—rather than enforcement—with the nation's biggest banks."

The study continues: "Despite a dismal showing for the program, rising complaints from homeowners, and repeated threats from officials, the government has levied no penalties against even the most error-prone banks and mortgage servicers. In fact, despite issuing public warnings for more than a year about imposing penalties, the Treasury Department told ProPublica this week they don't even have the power to punish servicers for wrongfully denying help to homeowners. Instead of toughening the program, Treasury has actually loosened it in the face of industry lobbying."

ProPublica cites the comments of law professor Alan White of Valparaiso University in Indiana, "Treasury staff are preoccupied with friendly relations with the banks. Sometimes it seems the banks own Treasury." Indeed they do.