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One in 7 US Homeowners Late Paying or In Foreclosure

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One in every seven U.S. households with a mortgage ended the first quarter behind on payments or in foreclosure, although a peak in unemployment could mean repayment stress is easing, the Mortgage Bankers Association said Wednesday.

While the rate of new foreclosure actions has slowed, the stockpile of loans that are seriously delinquent or in foreclosure means a long path to recovery for the U.S. housing market.

"It's like shutting off the oil leak, but you still have a lot of oil in the Gulf to deal with," Jay Brinkmann, the MBA's chief economist, said in an interview.

Loans that are 90 days or more past due or in foreclosure represent a historically high 68 percent of all problem mortgages. High unemployment is overwhelming efforts by lenders to alter loan terms to borrowers.

Looming foreclosures and short-sales "suggest we will have more house price declines where we'll see a bottoming of the price decline very late this year into early next year," said Mark Zandi, chief economist with Moody's Analytics in West Chester, Pennsylvania.

Prices have toppled about 30 percent peak to trough on average but have stabilized in recent months.

"But the good news is that early-stage delinquencies and foreclosures are falling, so we should see a definitive rise in home prices by the spring 2011 selling season," said Zandi.

The combination of loans in foreclosure and those that are at least one payment past due declined to 14.01 percent on a non-seasonally adjusted basis from a record 15.02 percent in the fourth quarter, according to the MBA's National Delinquency Survey.

New claims for unemployment insurance in the first quarter were higher than expected, the MBA said, which stymied improvement in the 30-day delinquency rate. The rate has stabilized, Brinkmann said, though "a bad situation that is not getting worse is still bad."

The delinquency rate for one-to-four-unit residential loans in the first quarter rose to a seasonally adjusted rate of 10.06 percent of loans outstanding from 9.47 percent the prior quarter and from 9.12 percent a year earlier.

The MBA said it views the adjusted data with caution because of difficulty gauging what represents a fundamental improvement rather than seasonal adjustments. Delinquency rates typically peak in the fourth quarter and fall in the first quarter.

Unadjusted, the delinquency rate fell to 9.38 percent in the first quarter from 10.44 percent the prior quarter.

"Overall, we see a continuation of the pattern of declines in short-term delinquency rates, at least on a non-seasonally adjusted basis, the continued historically high share of delinquencies that are 90 days or more past due, and a leveling off in the pace of foreclosures," Brinkmann said in a statement.

The share of loans starting the foreclosure process rose to 1.23 percent in the first quarter from 1.20 percent the prior quarter, but edged down from 1.37 percent a year earlier.

The percentage of U.S. home loans in foreclosure climbed to a record 4.63 percent from 4.58 percent in the fourth quarter and from 3.85 percent a year ago.

Despite government efforts to modify loan terms, foreclosures have mounted as seriously delinquent mortgages work through the process of bank repossession.

U.S. national unemployment, which hovers just below 10 percent, is forcing more homeowners to default in states other than those most hurt in the initial foreclosure tidal wave spawned by high-risk loans. Joblessness and wage cuts kept boosting defaults on prime, fixed-rate loans, or relatively safe mortgages made to borrowers with high credit quality.

Washington, Maryland, Oregon and Georgia had the largest overall increases in foreclosure starts in the first three months of the year compared with the last three months of 2009, the MBA said.

"Some might take comfort from the apparent topping out in the number of foreclosures started, but the inventory of foreclosures continues to rise—in other words, this headwind will linger," said Tom Porcelli, senior economist at RBC Capital Markets in New York.

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