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Borrowers with good credit fuel foreclosures in 1Q

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The mortgage crisis is spreading and hitting new heights: Borrowers with good credit now make up the largest share of foreclosures as job losses and pay cuts exact their toll.

A record 12 percent of homeowners with a mortgage were behind on their payments in the first quarter, the Mortgage Bankers Association said Thursday. And the trend is predicted to continue until the end of next year, about six months after unemployment is expected to peak.

The genesis of the recession - risky adjustable-rate loans made to borrowers with bad credit - remains a significant factor in foreclosures. Today, almost half of all subprime ARMs are past due or in foreclosure. In Florida, New Jersey and New York the number is above 55 percent.

When those borrowers started defaulting in droves in late 2006, it forced dozens of lenders out of business and sparked a credit crisis in the summer of 2007. Businesses nationwide couldn't get short-term loans to finance new orders or even cover their payrolls. Economic production began shrinking at the end of 2007 in what has become the longest recession in the United States since World War II.

The impact has now filtered out, consuming homeowners who until recently had a good track record of paying their bills on time. Nearly 6 percent of these prime borrowers with fixed-rate mortgages were past due or in foreclosure, nearly doubling in the last year.

"These (borrowers) are the best of the best out there," said real estate analyst Mike Larson with Weiss Research in Jupiter, Fla. "Clearly, borrowers far and wide are getting hit by this."

The worst of the trouble continues to be focused in California, Nevada, Arizona and Florida, which accounted for 46 percent of new foreclosures in the country and reported the worst delinquency and foreclosure rates on prime fixed-rate loans. The four have suffered massive job cuts in the housing industry. There were no signs of improvement.

But experts expect the pain to spread throughout the country as job losses mount. MBA's chief economist Jay Brinkmann estimates the unemployment rate will top out in mid-2010 and foreclosures to abate about six months afterward.

The number of newly laid off people requesting jobless benefits fell last week, the government said Thursday, but the number of people receiving unemployment benefits reached 6.78 million in mid-May, the highest on record.

The continuing rise in unemployment, which economists say could reach double digits, means more trouble for the ailing financial system and the economy. Lower incomes and lost jobs are the No. 1 reason people lose their homes through foreclosure. Higher unemployment also means people have less money to spend on basic necessities, let alone luxuries.

And borrowers without jobs are harder for lenders to help with loan modifications.

Nadine Harris in Bakersfield, Calif., is hoping to modify her 30-year fixed-rate mortgage under President Barack Obama's loan modification and refinancing program introduced earlier this year.

The 55-year-old was laid off two years ago by Sears after working there 34 years. Harris found another job, but she makes $20,000 less a year. The $925 she takes home every two weeks doesn't cover her $1,522 mortgage and other living expenses. She's used all her savings to stay current on her payments, but next month the reserves will run dry.

"I'll have to scrimp to make up the payment in June," she said.

Jodi Woodsmith, a housing counselor at Self-Help Enterprises in Visalia, Calif., said in the last eight weeks she's seen more and more homeowners with similar stories walk through her door.

"Those who had savings, they've exhausted their savings hoping they could ride it out," she said.

Woodsmith said a recent change to the president's program allows borrowers to use unemployment benefits as a source of income for a loan modification. Income from spouses who are not on the mortgage also is taken into account.

Though the plan might stem some foreclosures, it might not be enough to significantly alter the crisis.

"It may be too much to say that the numbers will fall because of the plan," Brinkmann said. "It's more correct to say that the numbers won't be as high."