

Report on **Business**

Underwater mortgages dog U.S. housing

Nearly one-quarter of residential mortgage holders – 10.7 million households – owe more on their mortgage than their home is worth

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Globe and Mail Update Published on Tuesday, Nov. 24, 2009 8:15PM EST Last updated on Wednesday, Dec. 16, 2009 6:54PM EST

Don't try to tell Mandy Peacock that the [housing market](#) in the United States is showing any signs of life.

"I don't think we've hit anywhere near the bottom," said Ms. Peacock, managing partner at AAA Home Rescuers in Las Vegas, which helps people modify mortgages.

Ms. Peacock typifies the problem facing millions of American homeowners.

She bought a condominium in Las Vegas in 2006 for \$250,000 (U.S.), borrowing the full amount at an interest rate of around 12 per cent. When the recession hit a year later, house prices in the city plummeted and it wasn't long before Ms. Peacock's mortgage was far higher than the value of the condo. She finally gave up and is now selling the property for \$49,000.

"I'm definitely an optimistic, positive person," she said. "However, for my industry I have to be realistic too."

According to one report released Tuesday, 23 per cent of residential mortgage holders in the United States – or 10.7 million households – are in a negative equity position, meaning they owe more on their mortgage than their home is worth.

The figure jumps to nearly 28 per cent when "near negatives," or borrowers with less than 5 per cent equity in their home, are included, according to the report by First American CoreLogic, a Santa Ana, Calif.-based [real estate](#) research firm.

Some of the firm's regional figures are far worse. In Nevada, for example, 65 per cent of mortgage holders are in negative equity, while in Arizona and Florida the number is close to 50 per cent. (Because it has changed its methodology, First American does not have comparative figures from previous years.)

The housing market is key to an economic recovery in the U.S. and investors have been searching for signs of life for months. Some have clung to a few recent encouraging signals.

For example, Zillow.com, a Seattle-based real estate firm, said that according to its survey the percentage of single-family homes in negative equity fell to 21 per cent in the third quarter, from 23 per cent in the previous quarter.

Tuesday's S&P/Case-Shiller home price index also showed that prices increased 0.3 per cent in September from the prior month on a seasonally adjusted basis. This was the index's fourth consecutive monthly gain, though the September increase was lower than the previous month's. Another report released Tuesday from the U.S. Federal Housing Finance Agency showed that prices for purchased homes remained flat in the third quarter compared with a decline in the second quarter – welcome relief for many investors after months of steady declines.

But none of the figures impressed economists like Patrick Newport of IHS Global Insight. He believes the tepid bounce in prices is due mainly to various government programs, including an \$8,000 tax credit for first-time home buyers that was set to expire this month but was extended to April 30.

"The problem here in the United States is that there's still a big foreclosure problem," Mr. Newport said, citing figures released last week by the Mortgage Bankers Association that showed foreclosures hit a 30-year high in the third quarter. The percentage of U.S. households in negative equity will only add to the foreclosures, he said: "It's a weak market and it's going to stay weak."

Mr. Newport expects prices to fall another 5 per cent and he doesn't see any recovery until 2011, especially if unemployment remains high.

Brent White, an associate professor of law at the University of Arizona, says the number of foreclosures could go much higher once people who are in a negative equity position get over the stigma attached to defaulting.

In a recent study, Mr. White found that the vast majority of homeowners who are underwater with their mortgage continue making payments because they are afraid to face the shame and guilt of walking away from their property. Government programs and mortgage lenders exploit this sense of shame by pushing borrowers to stay in their homes, even when the cost of defaulting is less than the cost of making even lower mortgage payments, he said.

"Guilt and shame are powerful motivators," he said in the study.

"It's like holding back the dam on the backs the middle class," Mr. White added in an interview Tuesday. "But once we get passed that [fear] then banks would have an incentive to renegotiate. because they don't want these houses."

People like Carmen Rodriguez in Grand Rapids, Mich., show that some progress is being made.

Ms. Rodriguez hasn't worked in two years because of a disability and nearly abandoned her home last year because she couldn't afford the mortgage. Her lender, a division of U.S. Bank, agreed to modify her loan and cut the monthly payments by \$100.

"It's a little tight but it's enough for me to get by," she said. "And, it saved the house."

