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Obama Housing Rescue Threatened by Foreclosures, Unemployment

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By Kathleen Howley



Jan. 29 (Bloomberg) -- President **Barack Obama's** efforts to bolster the U.S. housing market, the trigger of the worst recession since the 1930s, may be undone by record unemployment and repossessions by lenders.

Foreclosures probably will reach 3 million this year, surpassing the record of 2.82 million in 2009, according to Irvine, California-based RealtyTrac Inc. That would more than offset an estimated 448,000-unit rise in home sales, based on the average forecast of the National Association of Realtors, the Mortgage Bankers Association and Fannie Mae.

The housing industry remains a challenge for Obama as he enters his second year of office and government assistance programs near expiration. Data this week showed home sales tumbled after the expected end of an \$8,000 tax credit for first-time buyers boosted transactions the prior month.

"The housing market is still on life support, and if government measures are withdrawn too quickly it could sink it, taking the economy down with it," said **Mark Zandi**, chief economist at Moody's Economy.com in West Chester, Pennsylvania. "Households have such high debt loads, in addition to their mortgages, that any reduction in income, including a job loss, could trigger a foreclosure."

Employers have cut more than 7 million jobs in the last two years, the biggest employment loss since the Great Depression. The U.S. **jobless rate** probably will average 10 percent in 2010, according to the median estimate of 59 economists surveyed by Bloomberg. That would be the highest yearly rate in government records dating to 1948. Unemployment was 9.3 percent in 2009, the most in 26 years.

Mortgage Modifications

The Obama administration's primary **anti-foreclosure plan**, the Home Affordable Modification Program, or HAMP, resulted in 66,465 permanent modifications by the end of December, compared with goal of up to 4 million by 2012. In total, 1.16 million offers were extended to borrowers and the terms of about 900,000 mortgages were changed on either a trial or permanent basis, the Treasury Department said in a Jan. 15 report.

"We're working to lift the value of a family's single largest investment -- their home," Obama said in his Jan. 27 State of the Union speech to Congress.

For HAMP to succeed, the program will have to be changed to include principal reductions on mortgages to offset value declines, according to **Karen Weaver**, global head of securitization research at Deutsche Bank AG in New York, and **Laurie Goodman**, the New York-based senior managing director at Amherst Securities Group.

Principal Reductions

In its current version, HAMP lowers mortgage payments to about a third of borrowers' income by

reducing interest, lengthening repayment terms and deferring principal repayments.

"If the other measures in HAMP aren't working, the government will have to look at principal reductions," said **Brian Bethune**, chief financial economist at IHS Global Insight in Lexington, Massachusetts.

In addition to modifications, the government's Making Home Affordable program was responsible for refinancing 3.8 million loans in the portfolios of government-run Fannie Mae and Freddie Mac. The program, known among mortgage brokers as Obama refs, allows borrowers who have balances higher than their home's value to renew their loans at lower rates.

One in Four

One in four U.S. homeowners holds a mortgage with a balance higher than the property's value. The number of borrowers with so-called negative equity reached 10.7 million, or 23 percent, at the end of the third quarter, according to a Nov. 24 report by First American CoreLogic, a Santa Ana, California-based real estate research firm. Government programs to help underwater borrowers exclude jumbo mortgages that aren't eligible to be purchased by Washington-based Fannie Mae and **Freddie Mac** of McLean, Virginia.

The government spent \$230 billion to support HAMP and other housing programs in the 12 months ended Sept. 30, according to the Congressional Budget Office in Washington. The Federal Reserve has pledged to spend \$1.25 trillion buying mortgage-backed securities in an effort to reduce fixed-mortgage rates. That program is set to end this quarter.

The 30-year **mortgage rate** dropped to an all-time low of 4.71 percent during the first week of December, according to Freddie Mac. It was at 4.98 percent in the week ended yesterday.

The Federal Reserve said Jan. 27 it will keep the target rate for overnight bank lending near zero to help nurture the recovery.

"Household spending is expanding at a moderate rate but remains constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit," the Federal Open Market Committee said this week in a statement.

Dropped Reference

The statement dropped the previous reference to real estate that said housing "has shown some signs of improvement."

National home prices rose 1.5 percent last month from a year earlier, the first annual gain since August 2007, the Chicago-based National Association of Realtors said Jan. 25. The median price fell 12 percent in 2009 to \$173,500, compared with a 9.5 percent drop in 2008, NAR data show.

While the tax credit spurred a 4.9 percent rise in home resales last year, the first annual gain since 2005, sales of existing homes in December slumped 17 percent, the biggest drop on record. The tax benefit originally scheduled to expire Nov. 30 was extended into 2010 and expanded to all buyers by a bill Obama signed on Nov. 6. The extension gives buyers until April 30 to have a signed contract on a home, and until July 1 to close on it.

New-Home Sales

Purchases of **new homes** fell 7.6 percent to an annual pace of 342,000 in December, the fourth drop in the past five months, the Commerce Department said Jan. 27 in Washington. Sales declined 23 percent to 374,000 in 2009, the lowest level since records began in 1963.

The **median price** of a new house fell 3.6 percent from the year-earlier month to \$221,300, the agency said.

Currently, 6.5 million households are either in default or at least one payment behind on their mortgages, according to the Center for Responsible Lending based in Durham, North Carolina.

If enough of those are seized by lenders, it could lead to a "double-dip recession or at least to a slower

recovery," said [Julia Gordon](#), senior public policy counsel for the research and policy group, in testimony before the House of Representatives Committee on Financial Services last month.

"Housing is going to have a bumpy ride this year because of foreclosures," said Bethune, of IHS Global Insight.

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