

Bernanke Urges More Action on Home Foreclosures

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A rising tide of late mortgage payments and home foreclosures poses considerable dangers to the national economy, Federal Reserve Chairman Ben Bernanke warned anew as he urged Congress to take additional steps to alleviate the problems.

"High rates of delinquency and foreclosure can have substantial spillover effects on the housing market, the financial markets and the broader economy," Bernanke said in a dinner speech to Columbia Business School in New York. "Therefore, doing what we can to avoid preventable foreclosures is not just in the interest of lenders and borrowers. It's in everybody's interest." he said.

Some 1.5 million U.S. homes entered into the foreclosure process last year, up 53 percent from 2006. The rate of new foreclosures looks likely to be even higher this year.

To provide more relief, Bernanke again called on Congress to give the Federal Housing Administration, which insures mortgages, more flexibility to help distressed borrowers at risk of losing their homes. He also again urged lawmakers to move ahead on legislation revamping Fannie Mae and Freddie Mac, which finance mortgages. And, he called on the two mortgage giants to quickly raise new capital.

The reasons behind surging late payments and foreclosures can vary and that needs to be taken into account when developing solutions. For instance, parts of New England, states in the Great Lakes, including Minnesota, Michigan and Wisconsin, show increased mortgage delinquencies and "notable increases" in unemployment rates.

California, Florida and parts of Colorado, on the other hand, saw delinquencies rise during a period when unemployment generally decreased but the value of homes declined.

Mortgage companies are used to dealing with delinquencies related to life events, such as job loss or an illness, with the most common approaches being a temporary repayment plan or the folding of missed payments into the principal balance.

A widespread decline in home prices, by contrast, is a relatively novel phenomenon, and lenders and servicers will have to develop new and flexible strategies to deal with this issue.

The current housing crisis has clobbered some borrowers home prices dropped. That left them with mortgages that are bigger than the value of their home. When that's the primary problem, the best solution may be reducing the amount that the borrower owes on the loan or some other permanent modification to the loan.

Rising foreclosures add to the glut of unsold homes and that put more downward pressure on prices, aggravating the housing slump. More rapid declines in house prices could have an "adverse impact" on the broader economy and the stability of the financial system, he said.

The Fed hopes that its powerful series of rate cuts - its most aggressive in decades - along with the government's \$168 billion stimulus package - including tax rebates that started flowing to bank accounts last week - will be sufficient to lift the country out of its slump in the second half of this year.

The mortgage meltdown started with problems with subprime mortgages - those made to people with tarnished credit. However, they have spread to more creditworthy borrowers.

The trio of crises - housing, credit and financial - have threatened to plunge the country into its first recession since 2001. The situation has roiled Wall Street, rattled consumers and has galvanized politicians in the White House, in Congress and on the campaign trail to come up with proposals to provide relief.

The Realtor's mantra is 'location, location, location' ... local variation in housing and mortgage markets is

considerable. This variation is useful for understanding the sources of the increase in mortgage delinquencies and foreclosures, and it should be taken into account as servicers and policymakers consider how best to avoid preventable foreclosures.