The foreclosure problem is far from a crisis

By Scott Burns
AMERICAN-STATESMAN STAFF
Sunday, February 24, 2008

A recent listing of mortgage foreclosure rates in the 100 top areas drew a lot of attention. Released by RealtyTrac, a firm that compiles data on home foreclosures, the listing showed the number of foreclosure filings in each city, the percentage of homes being foreclosed and the percentage change from the previous year.

Though the report had some dismal news, such as the nearly **4.9 percent foreclosure rate in Stockton, Calif.,** a close look at the data also provides some reassuring information. It tells me, for instance, that **the foreclosure crisis is a regional problem**, not a systemic problem. It could become a systemic problem, of course, but we're a long way from that.

This news will disappoint the gloom and doom crew and all of those seeking the excitement of financial upheaval. But it might be time to temper our worry and take a closer look at some of the foreclosure rate statistics.

• Though the national rate of foreclosure had increased by a whopping 79 percent in the previous year, it was still only 1.033 percent. Because about 30 percent of all homes are owned mortgage-free, this means that for all the noise about a crisis, **only seven-tenths of 1 percent of all homes are in foreclosure.**

• In the top 100 housing markets, the average foreclosure rate was somewhat higher, 1.38 percent. And it was up 78 percent over the previous year. But if you rank-ordered the list of the top 100 areas, only 34 had foreclosure rates above the group average. Fifty-one areas had rates of 1 percent or less.

• Foreclosure rates had fallen in 14 of the 100 areas. More important, many of the areas suffering the highest increase in the foreclosure rate were rising off a rate that was tiny. The Bethesda, Md., area, to offer the most extreme case, saw foreclosures rise 1,288 percent — to a rate of 0.682 percent. In other words, foreclosures there were virtually nonexistent the year before. Today, they are still well below the national average. The same can be said for the Albany, N.Y., area (up 638 percent to 0.25 percent), the Baltimore area (up 544 percent to 0.73 percent) and the Providence, R.I., area (up 354 percent to 0.41 percent).

Another pattern emerges if you cross the foreclosure rate figures with the Office of Housing Enterprise Oversight index of home prices. It shows that the top 10 foreclosure areas in America are areas of extreme price change, changes far from the national average of 46.92 percent in the past five years.

Seven of the top 10 foreclosure areas experienced major price spikes in the past five years. Three of the top 10 foreclosure areas experienced price increases that were dramatically lower than the national average. That pattern continues when you examine the top 25 foreclosure areas as well.

The seven areas with the top price appreciation for the past five years averaged a stunning 91.6 percent increase, nearly double the national average. The national average, in turn, was about triple the inflation rate for the period. Small wonder the foreclosure rate is booming as well; anyone who bought in the past few years with a 5 percent or 10 percent down payment has a good chance of being upside down as froth comes off the market. In those areas, the problem is about irrational price spikes and the hazards they bring to homeownership.

Some would call this a "Cadillac problem" — a great problem to have, like having more boats than you have water skiers. Though 5 percent of the homeowners might be losing their homes, most of the other 95 percent are probably feeling significantly richer.

How much richer? Try this. Suppose you paid three times your income for a house and it nearly doubled in value over five years. What does that mean? It means your net worth grew by nearly three years of income. Try achieving that with your 401(k) plan. Even if you bought halfway through the surge, your gain is likely to be well over one year of income. However you cut it, the change compares quite favorably with working and saving.

The three areas with low price appreciation are a different matter. Homeowners in Detroit have actually lost money on their homes in the past five years. That, in turn, has limited their ability to make up for income shortfalls by borrowing against their home equity. Add a shrinking job market, and places such as Detroit are coping with a perpetual surplus of sellers over buyers.

One indication is the cost of renting a U-Haul truck. It costs $1,447 to rent a 26-foot truck to move from Detroit to Dallas, but it costs only $521 to rent the same truck to move from Dallas to Detroit. The real economic problem isn't the price-spike states. It's the deflation states.

Questions about personal finance and investments may be sent by e-mail to scott@scottburns.com or by fax to (505) 424-0938. Questions of general interest will be answered in future columns.

Courtesy of JB Goodwin