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In over heads, with no way out

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The relentless slide of home prices in Lee County has left almost half of recent buyers owing more on their mortgages than the home is worth — a sure-fire recipe for a new wave of foreclosures, experts say.

Worst off are those who bought homes in 2006, just as the housing boom was ending: 78.5 percent of those now have home values less than the original loan amount, according to second-quarter statistics compiled by real estate data provider Zillow.com.

Among people who bought within the past five years, 46 percent are underwater on their mortgage in Lee, compared with 29 percent nationwide, according to Zillow.com.

The result of homeowners being "underwater" is more pres-
-sure on an economy that is already in a downturn. No longer having equity in their homes makes people feel less rich and thus less inclined to shop at the mall.

"We are so upside down," said Michelle Nacua of Lehigh Acres. Nacua and her husband, Lani, bought their house in 2004 for $112,000. They refinanced twice and now owe $161,000, far more than the $114,000 the three-bedroom, two-bath house is assessed for by the county Property Appraiser's Office. "It is our fault, but I hate it."

Having more homeowners underwater is likely to mean more eventual foreclosures, because it is hard for borrowers in financial trouble to refinance or sell their homes and pay off their mortgage if their debt exceeds the home's value. A foreclosed home, in turn, tends to lower the value of other homes in its neighborhood.

The majority of homeowners still have equity, and even among those who don't, many continue to make their mortgage payments on time. The financial-bailout legislation could at least "keep things from getting much worse" by helping banks avoid the need to tighten credit further, said Celia Chen, director of housing economics at Economy.com. Still, she expects housing credit to remain tight and home prices to decline in much of the country for another year or so.

Falling values have contributed to the sharp pullback in mortgage lending. Since the record high of $322,300 for the median Realtor-assisted sale of an existing single-family home in December 2005, the price has fallen 54 percent to $146,900 in August, according to the Florida Association of Realtors.

Even those who have been dutifully paying their mortgages are faced with the fear of foreclosures.

"The third wave is coming from people who are underwater who are suffering disruptions to income," said Chris Lafakis, Florida analyst for Moody's Economy.com. "That includes losing your job or repairing your car or a death in the family. It's a combination of declining home prices and a weakening job market."

Lee County's unemployment rate in August was 9 percent, up from 5.3 percent a year earlier.

The first two waves of foreclosures here consisted of investors who tried to flip for a profit and got caught in a declining market, followed by people with adjustable rate mortgages that reset to unaffordable levels, he said

Fort Myers attorney Kevin Jursinski agreed.

"My clients are not subprime buyers; they're people who've invested and can't afford to pay," said Jursinski.

For example, he said, "If I have a house I paid $400,000 for a few years ago with a $350,000 mortgage and I can buy a (bank-owned foreclosure) for $300,000 or $250,000, I'm going to do that," he said. "I'm gone. Why would I want to stay in a house where I've lost my equity and much, much more?"

It's not a risk-free process to dump your house, Jursinski noted: Your credit will take a hit and the bank could come after you for a deficiency judgment to get the full amount of the mortgage — although Florida laws favor the debtor.

He'd like to see some of the $700 billion bailout package passed by Congress two weeks ago used to subsidize lenders so they can reduce the debt of those homeowners.

But David Hall, president of Fort Myers-based First Community Bank of Southwest Florida, said the bailout is intended mainly to let the government purchase large bundles of no-money-down mortgages gone bad and owned by large financial houses on Wall Street.

"I just don't see a lot of this money trickling down into Lee County, into the small communities around the country," he said.

— The Wall Street Journal contributed to this report.

Nationwide, about 75.5 million U.S. households own the homes they live in. After a housing slump that has pushed down values 30 percent in some areas, roughly 12 million households, 16 percent, owe more than their homes are

worth, according to Moody's Economy.com.
The comparable figures were roughly 4 percent under water in 2006 and 6 percent last year, said the firm's chief economist, Mark Zandi, who noted "it is very possible that there will ultimately be more homeowners underwater in this period than any time in our history."
Among mortgages on one- to four-family homes, 9.16 percent were a month or more overdue or were in foreclosure in the second quarter, according to the Mortgage Bankers Association. That compared with 6.52 percent a year before and was the highest level since the association began such surveys 39 years ago.
In the third quarter, mortgage lending fell to the lowest level in eight years — down 44 percent in a year — said Inside Mortgage Finance.
In contrast with the 12 million estimated to be under water, 64 million have equity in their homes. These include 24 million households who own their homes free and clear, and 40 million whose homes remain worth more than is owed on them.
— The News-Press staff and wire services