

The Standard Times

September 11, 2005

Foreclosures rise, foreshadowing trouble

By Joseph R. LaPlante, *Standard-Times* staff writer

Mortgage foreclosures are soaring in Massachusetts, with the southeastern corner of the state experiencing the most dramatic increases.

According to **ForeclosuresMass**, a data collection company that provides information to real estate agents, lawyers and investors, the rate of foreclosure of residential properties in Massachusetts increased 29.67 percent for the first seven months of 2005 over the same period a year earlier.

The rate was highest in Bristol County, where the increase was 36.4 percent over 2004. Barnstable and Plymouth counties were right behind at 36.36 percent and 33.58 percent, respectively.

"Higher home prices, rising interest rates and homeowners with interest-only mortgages and adjustable-rate mortgages are driving the increase," said Jeremy Shapiro, president of Foreclosuresmass.

Increasing numbers of foreclosures is an economic indicator of bad times to come, said Dr. Clyde W. Barrow, director of the Center for Policy Analysis at UMass Dartmouth.

"It is a cause for concern," Dr. Barrow said. "You stand to get an uptick in foreclosures when the price of houses is outpacing the growth of people's income." "In other words, the boom-and-bust cycle is at play," Dr. Barrow said.

"The cycle goes back to the earliest days of the nation," he said. "It is speculation, but it says you are getting a bubble in the housing market."

The last bubble burst in the 1990s when home prices collapsed.

"I don't anticipate a 1990s type of collapse," Dr. Barrow said.

Mortgage holders foreclose when the homeowner falls behind on monthly payments or otherwise breaches the mortgage agreement.

Homeowners who have mortgages on homes that were either beyond their financial reach when they purchased them, or close to it, can find themselves in foreclosure with a bad turn of events in their lives, Mr. Shapiro said.

Job loss, illness, unexpected expenses or any combination of the three can topple a family's financial house of cards.

A Catch-22 occurs when home prices escalate beyond the rate that incomes increase, Dr. Barrow said.

"It is harder to get persons qualified for mortgages, so banks will start taking bigger risks and come up with financing deals to help people buy a house they can't afford," he said.

Banks hope that in providing mortgages in such cases that the equity in the house will increase at a rate sufficient to protect their stake. A foreclosure is a personal disaster for a homeowner.

"People lose their most valuable asset. They lose their wealth, and the result is that they cut back on their spending," Dr. Barrow said.

“The cutback on spending, when the number of foreclosures increases at the current rate, can have a negative impact on the local economy by constraining spending. In addition to wrecking an individual's credit and leaving him searching for housing, foreclosures can affect communities, as well,” Mr. Shapiro said.

“When a house is for sale, whether its owner gets the asking price depends, in part, on the prices at which neighboring properties sold. A few foreclosures in a neighborhood can drive down the average comparable price,” Mr. Shapiro said.

“Banks need to unload the houses, and that is when you get an oversupply of houses,” Dr. Barrow said. “It is a correction in housing that occurs every 15 to 20 years.”

The only winners at times like these are real estate agents, lawyers and speculators, Dr. Barrow and Mr. Shapiro said.

Homeowners facing foreclosure, failing to find the lump sum to pay off the arrearage, should turn to alternate sources of funding to save their home, Mr. Shapiro said.

“Homeowners should sell the house before the foreclosure, because once it is foreclosed, it is too late,” Mr. Shapiro said.

By selling the house, homeowners can avoid the worst black mark on their credit: foreclosure.

“All the late mortgage payments will drop off their credit record after a couple of years, and if they sold the house and paid off the mortgage, they could be in a position to get a mortgage after a couple of years to buy another house,” Mr. Shapiro said.