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Housing slowdown squeezes borrowers

By Kimberly Blanton, Globe Staff

The number of foreclosure notices filed against Massachusetts homeowners last year reached their highest level since the housing bust of the early 1990s, as homeowners fell behind on their mortgages and lenders began the process of taking back the properties.

Paradoxically, the sudden halt to sharply rising home prices put a squeeze on many borrowers, analysts said. Homeowners who stretched their finances to the limit to buy a home found it more difficult to make their payments on variable-rate mortgages as interest rates rose, but they were less able to refinance their loans at more attractive rates -- or sell and pay off their debts -- because the value of their homes fell or remained flat.

"When prices are skyrocketing, you have the option" of selling the house for a gain or refinancing, said Nicolas Retsinas, director of the Joint Center for Housing Studies at Harvard University.

"In an economy where price appreciation is more modest or doesn't exist, what option do you have left?" he said. "Sadly, one of those options is foreclosure."

Last year, there were almost 11,500 foreclosure filings in Massachusetts Land Court, where most notices are filed by banks and mortgage companies against the homeowners, according to ForeclosuresMass Corp., which compiles and tracks filings. That is a 32 percent increase from 2004, pushing the number of filings on record to its highest level since 1993, when a once-booming housing market was in a tailspin. The biggest increases were in Eastern Massachusetts.

During the housing boom of 1999 to 2004, the average price of Massachusetts houses and condominiums surged by at least 10 percent every year except one, putting the state's home-price appreciation among the nation's highest. But last year, price gains slowed to 5 percent, and single-family home prices were flat or even declined in some Boston and suburban neighborhoods.

"There's an epidemic of foreclosures," said Boston lawyer Gary Klein, who represents borrowers in lawsuits against lenders. "We're getting a steady stream of referrals of people who are looking for any option to save their home."

Jeremy Shapiro, president of ForeclosuresMass, predicted filings would rise again this year, because many homeowners with adjustable-rate mortgages will see their monthly payments begin to rise along with interest rates.

"As we get into '06, '07, '08 and beyond, we're going to see more folks whose rates adjust," he said.

When notice is filed, it typically takes a mortgage lender three to four months to complete the foreclosure process and seize the property. Only about one in three filings actually results in a bank or mortgage company taking ownership of the home, but they provide a gauge of financial hardship.

The biggest spikes last year occurred in Essex County, north of Boston (up 48 percent), Barnstable County on Cape Cod (47 percent), Suffolk County (45 percent), and Bristol County (44 percent).

Divorce, separation, and job losses are the main reasons people lose their homes. While high-income individuals in divorce proceedings or spending beyond their means are vulnerable, working-class cities including Lynn and Worcester, where residents are more likely to live on a tight budget, were hardest hit last year. Also, people with poor credit ratings who qualify for mortgages from lenders charging high interest rates are also concentrated in these neighborhoods.

"People can't pay their mortgage," said Juan Ortega, a real estate agent in Lawrence in Essex County. "They're up to the top. They bought very high, and now they can't make the mortgages."

Lawrence's housing market surged with the rest of the state. But lately, said Ortega, a Century 21 agent, he is spending his time helping clients facing foreclosures, which seem particularly acute in one predominantly Latino neighborhood north of downtown Lawrence.

A rash of foreclosures can drive down property values in a neighborhood, as lending institutions that do not want to hold onto the houses drop the prices to sell them quickly.

In the winter of 2004, Susan Chamberlain lost her part-time job as an IRS tax examiner. She recently was rehired, full time, but that earlier layoff precipitated a November foreclosure filing. She and her husband, Kevin, initially purchased their Lawrence home for $158,000 in the spring of 2001 with US Veterans Affairs financing.

In December 2002, they refinanced and withdrew some money to pay off a car and some bills, bringing their mortgage debt to $206,000.

The interest rate on the new mortgage was variable, initially averaging 9 percent but rising since then.

With the Veterans Affairs loan, the Chamberlains paid $1,200 a month on their mortgage; their current monthly payment is $1,900.

In the Boston area, house prices are so high, Klein said, that mortgages consume a growing share of monthly take-home pay. "It used to be, if you lost a job you'd be at risk of losing the house," he said. "Now, if you lose overtime, many families are so close to the brink, and that can create problems."