



Foreclosures hit region hard

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If the current trend continues, home foreclosures in Greater Waterbury and Litchfield County could end the year up more than 60 percent, mirroring a national trend of mortgage defaults.

More than 1,400 foreclosures have been filed against property owners in the 31 cities and towns served by the Waterbury and Litchfield Judicial Districts since July 1, 2006. Last year, the entire caseload was 1,463 for both districts.

At the present rate, foreclosures could top 2,300 in the region by the end of this fiscal year.

RealtyTrac, an Irvine, Calif.-based company that tracks foreclosures nationally, ranks Connecticut 17th in the nation for its rate of foreclosures.

RealtyTrac, which compiles its data on a calendar year basis, says the spike in foreclosures here began in the last quarter of 2005, when 4,202 homeowners were in default or facing a bank sale of their houses.

Those figures leveled off somewhat during 2006 in Connecticut, with 3,436 new delinquencies or foreclosures identified in the fourth quarter.

Although the trend line is scary, the Mortgage Bankers Association, an industry organization based in Washington, D.C., reports that only 5 percent of residential mortgages were delinquent in the fourth quarter of 2006, but the number has inched up about 3 percent every quarter over the last year.

The reason: the loose credit that accompanied the housing boom that started in 2002.

As real estate prices soared, thousands of new borrowers were enticed into

the market with adjustable-rate mortgages and homeowners decided to cash in on wildly increasing values. They borrowed against the new-found equity in their homes, often taking out interest-only loans which have come due just as the market has started to decline.

Records from dozens of foreclosure cases in Waterbury Superior Court show that many of the homeowners now in trouble were not intemperate speculators, they had owned their properties for decades.

Equity surge fuels market

Over the past several years, these homeowners decided to cash in -- either through conventional home equity loans or so-called sub-prime loans that offered low interest rates for the first two years.

Thus a borrower would pay an extremely low rate of interest -- as little as 5 percent or less in some cases. Then, the interest rate would jump according to any one of several economic indicators such as the one-year average on Treasury Bills, plus a percentage profit for the lender.

Eugene Melchionne, a Waterbury attorney who represents debtors, said the trend in foreclosures will continue through the rest of the year because those variable-rate mortgages are now being adjusted upward and homeowners simply don't have the cash to pay the higher rates.

A mortgage that bumps from 4.5 percent interest to 6.5 percent means the borrower ends up paying 44 percent more in interest each month. A payment that started at \$1,200 a month can jump to \$1,600 a month.

The dip in real estate values in recent months has come just as those increased payments hit, leaving the borrowers with little or no new equity to leverage in refinancing their loans.

"People spent the equity. It was all paper money," Melchionne said. "It has a domino way of catching up with you when income hasn't gone up and expenses have."

Wrong rate at wrong time

Because of the increased failure rate for mortgages, lenders have begun tightening credit, meaning that borrowers with poor credit or depleted equity can't easily move their variable rate mortgages to more stable fixed rates.

Some new homeowners with marginal credit were steered into variable-rate loans because it allowed them to buy more house than they could normally

afford. Interest-only loans typically have a lower monthly payment -- at the start -- than traditional mortgages.

"If you were going into an interest-only mortgage to buy a house that clearly one cannot afford, that raises some red flags," said Sen. Bob Duff, D-Norwalk. "You don't want to have a house and eat ramen noodles at the same time." Duff is the Senate chairman of the legislature's banking committee and also a Realtor.

Rep. Jeffrey J. Berger, a Waterbury state representative who also works as a Realtor, said a combination of those high-risk mortgages and other financial stresses appear to be putting some homeowners over the brink. "Any little bit of fluctuation is going to send them into a tougher position," Berger, D-73rd, said.

The massive increases in electricity costs, spikes in gasoline prices, an uninsured medical expense, divorce and other debts become too much on top of a jump in interest payments.

Lawmakers say they're monitoring the situation, but don't necessarily plan to do anything to regulate the market.

Rep. Ryan Barry, D-Manchester, has proposed that the state revive its emergency mortgage payment program.

The \$5 million program would give troubled homeowners three years of assistance paying their mortgages through the Connecticut Housing Finance Authority, after which they would repay. The presumption is that after three years, the program participants would be in a better position to meet their obligations.

The program was created in 1994 during a previous market downturn that forced many into short sales or foreclosures.

Short sales entail selling a house for whatever a buyer will offer and trying to convince the bank to accept the proceeds as full payment, even if that sales price falls short of the loan amount.