

July 2009 Newsletter



RE/MAX Gateway

972-234-4099

3405 Spectrum Blvd.
Richardson, TX 75082



Jim



Justen



Kelli



John



Kristin



Ryan Real Estate Group

972-979-1231

JRyan@RyanRealEStateGroup.com
www.RyanRealEstateGroup.com

Another Wave of Foreclosures Coming

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By Steve Brown*

With home foreclosure filings at record levels in Dallas-Fort Worth, analysts warn that a new wave of home losses is on the horizon. So far, the biggest chunk of foreclosures in North Texas has been on homes with subprime mortgages – loans given, in many cases, to first-time buyers who couldn't otherwise purchase a house.

Now, with the recession and falling home prices, an increasing number of homeowners who have prime adjustable-rate loans and so-called Alt A loans are running behind on their payments. Alt A is short for Alternative A-paper, a type of mortgage that is considered riskier than A-paper, or prime, but less risky than subprime, the riskiest category. Alt A loans can be issued at fixed or adjustable rates.

"The subprime adjustable-rate mortgages have just about worked their way through the market," said Jim Gaines, a research economist at the Real Estate Center at Texas A&M University. "Now there is another wave coming that is bigger than the subprimes. "We are still going to have a good number of foreclosures." Foreclosures in the D-FW area – and the rest of the country – are at historic highs.

So far in 2009, more than 35,000 home foreclosure filings have been recorded in the four-county area, a 20 percent increase from the first seven months of 2008. In July alone, there are more than 6,000 D-FW homes scheduled for foreclosure, an increase of 62 percent from a year earlier, according to statistics from Addison-based Foreclosure Listing Service.

Resetting Rates - Housing analysts say a growing number of local residents are losing their homes because of job losses and other economic hardships caused by the worst national recession in generations. Many homeowners who financed their purchases with prime adjustable-rate loans could be in a pinch when the loan payments reset. And it's harder to refinance in today's tight lending market.

"We are going to have a lot of prime loans resetting adjustable rates in the latter part of this year and into the year after," Gaines said. "We are real concerned about what's happening to those loans." The number of adjustable-rate-mortgage holders who are behind on their payments has jumped in the last 18 months.

Nationwide, more than 12 percent were at least one payment behind at the end of the first quarter, according to the Mortgage Bankers Association.

For borrowers with subprime adjustable-rate loans, the delinquency rate is 27.6 percent. In Texas, about 8 percent of prime and 26 percent of subprime adjustable-rate loans are late, first-quarter estimates show. That works out to about 45,000 potential home foreclosures statewide. So far, efforts to slow home foreclosures are having limited effect here.

"In terms of these various assistance and bailout programs for distressed homeowners, it's not clear to me how they are working," said Bud Weinstein, an economist at the University of North Texas. He's also keeping an eye on Alt A and prime loan defaults. "A lot of those Alt A loans are going to be resetting [payments] in 2009 and 2010," Weinstein said. "It's not going to be over soon, but I still think our market is in better shape than a lot of the large metro areas."

Off the Charts - By some estimates, subprime loans once accounted for as much as 20 percent of the mortgage market in North Texas. They account for almost 50 percent of the foreclosures. There are conflicting estimates of how much prime adjustable-rate and Alt-A lending has gone on here in recent years. But nationwide, almost \$400 billion in Alt A mortgages were written in 2006. At one time, they made up about 10 percent of the total U.S. mortgage market. "It is substantial, even compared to the subprimes," Gaines said. "By historical standards, these delinquencies are off the chart." In the D-FW area, there are more than 40,000 Alt A loans on the books, according to First American CoreLogic Inc. More than 9 percent of those loans are more than 60 days behind in payments. And many borrowers can't get new loans when their adjustable-rate payments go up, even though they qualified for the original financing, Gaines said. "When they come up for reset, a lot of these people's conditions have changed," he said. "Either they can't qualify or the value of the property has fallen."

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