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HOUSING: Loan workouts easier, but might not be helpful

By ZACH FOX - Staff Writer

It's getting easier to save families from entering foreclosure, community activists said Friday.

But some economists said the loan modifications, which often reduce mortgage payments, might not stop North County's real estate crisis from deepening.

Countrywide, one of the nation's largest lenders, announced a plan last month that aimed to speed the modification process to keep borrowers from defaulting. One mortgage broker, Sheldon Ruckens of Carlsbad, said one of his clients received a Countrywide modification the first time he called the lender ---- a stark contrast to previous accounts of long, frustrating modifications.

And Community HousingWorks, a nonprofit that serves as one of the county's leading advisers in modifications, reported that lower mortgage payments have become easier to secure by the week.

But many of the modifications by all lenders were interest rate adjustments, not principal write-downs that reduce the amount owed, analysts said.

As a result, said Christopher Thornberg, an economist with Beacon Economics, many modifications will not help North County's real estate crisis.

"It just extends the misery, that's all," Thornberg said. "This doesn't sound like a bank helping a person, this sounds like a bank trying to help itself."

One such modification went to Oceanside resident Diane Goodwin. During a housing boom four years ago, Goodwin turned from homeowner into real estate investor. By 2006, she owned four rental properties in addition to her own house.

All five homes carried mortgages known as "negative amortization," products that allow borrowers to pay less than interest ---- meaning the mortgage balance grows each month.

This year, Goodwin faced two mortgages readjusting to full amortization status, meaning all the interest would be paid in addition to part of the principal ---- a jump in cost of about 50 percent. But her lender, GMAC, agreed to a loan modification that fixes the interest rate at 2 percent for five years while paying some principal. The result: a similar payment to her previous loan.

"I feel very much relieved," she said. "In five years, we would have paid off some of the principal and hopefully some of these properties will come back."

Her loan modification did not carry a principal write-down.

But Goodwin said she expects the real estate market to improve within five years, allowing her to refinance the loan or sell the house.

Thornberg said that's not likely.

Real estate prices will not return to 2006 levels for another decade, at least, he said.

Though one of his clients benefitted from a modification, Ruckens said he agrees with Thornberg.

"It's far from over. They can save a few people here and there, but it doesn't mean people can afford it," he said. "It's only a temporary slowdown until a complete collapse to affordable houses."

Only principal write-downs will be effective, Thornberg said. And of the modifications completed with the help of Community HousingWorks, "the vast, vast majority" are interest rate adjustments, not write-downs, said Gabe Del Rio, vice president of homeownership for Community HousingWorks.

But if programs like Countrywide's become widespread among lenders, it could help prevent price declines in many communities, he said.

"It would certainly curb foreclosures and it would help us in stabilizing the market," Del Rio said.

Del Rio and Thornberg did agree on one aspect of North County's foreclosure crisis: the recession x-factor. The county has lost jobs for five straight months, with several economists expecting steeper job losses in the near future.

Without a job, workouts are virtually impossible, analysts said.

"That's why I can't say we're past the halfway point of foreclosures ---- because we're not past the halfway point in the recession," said Norm Miller, a real estate professor with the University of San Diego's Burnham-Moores Real Estate Center.

And what does the modifications mean for housing prices, which are 30 percent off 2005 levels in San Diego County?

Del Rio said it could reduce the pain. But Thornberg said house prices need to reach 40 percent below peak pricing to become affordable and that real estate cycles typically overshoot, meaning prices dip below historical norms because of psychological factors.

"The question is, if they're modifying loans are they going to prevent some of that overshooting? Maybe," he said. "But that's like saying, 'If I turn on this fan in the hurricane, am I going to feel the draft?'"

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