

Billions in housing wealth at risk as foreclosures soar

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More than \$23.6 billion in California housing wealth will evaporate if real estate prices continue to decline and foreclosures on subprime home loans soar, according to a new congressional report that indicates the fallout from the national mortgage crisis is worsening.

In addition, over the next two years, the state will lose nearly \$111 million in tax revenue from the forecast repossession of 191,000 homes and the spillover effect on neighboring property values, said the study, released Thursday by the Senate Joint Economic Committee.

"State by state, the economic costs from the subprime debacle are shockingly high," committee Chairman Chuck Schumer, D-N.Y., said in a statement. "From New York to California, we are headed for billions in lost wealth, property values and tax revenues."

The five states with the greatest number of projected foreclosures are California, Florida, Ohio, New York and Michigan.

Nationally, some 2 million homes representing \$71 billion in housing wealth - coupled with \$32 billion in depressed values on nearby homes - and \$917 million in property tax revenue are at risk. Last month, the Bush administration had forecast 500,000 subprime foreclosures.

The survey is based on home price, income and lending data gathered from federal regulators, banks, research firms and nonprofit groups and includes both direct costs of foreclosures to borrowers, lenders and governments as well as indirect losses incurred by surrounding homeowners.

But some economists, including Jon Haveman, a former senior economist with the president's Council of Economic Advisers, believes the committee's findings are too optimistic.

"Things are getting exponentially worse," said Haveman, a principal at Beacon Economics in San Rafael. Home prices "have only now started to drop. They have a ways to go."

Haveman expects the housing slump to touch off a recession by the beginning of next year, because more than 70 percent of U.S. spending is by consumers.

"There's been a dramatic increase in consumer spending fueled by the housing market," he said. "Now that housing prices are going down, (consumers are) going to have to reorient their household portfolio. They're going to have to start saving because their retirement isn't going to come out of the house. And they have to stop consuming because there's no more cash in their house."

Schumer and his colleagues on the committee called for several measures: boosting foreclosure-prevention counseling; allowing Fannie Mae and Freddie Mac to temporarily purchase more mortgages; changing the bankruptcy code to protect more borrowers from foreclosure; and fighting predatory lending practices by eliminating prepayment penalties and requiring lenders to ensure that borrowers can repay loans at the fully indexed rate.

Subprime loans are typically made to borrowers with less-than-stellar credit and often carry higher interest rates and fees. During the recent housing boom, many such borrowers stretched too far using risky loans. As home sales and prices softened and interest rates rose, many subprime borrowers found themselves unable to refinance and owing more than their home is worth, resulting in a wave of late mortgage payments and foreclosures.

Lenders and investors, meanwhile, have reduced dramatically the number of exotic and jumbo loans - those above \$417,000 - they offer, putting particular pressure on pricey housing markets like California, where the median price for a single-family home topped \$530,000 last month.

Though there is some evidence that the spigot on jumbo mortgages has loosened in recent weeks, many economists predict the housing market correction will last several years.

"It took Southern California 10 years to recover (from the last housing downturn), and it took the Bay Area six or seven years," said Cynthia Kroll, senior regional economist at the Fisher Center for Real Estate and Urban Economics at UC Berkeley. "That's a very realistic expectation."

Online resource

For the full report:

www.jec.senate.gov/Documents/Releases/10.25.07subprimereportrelease.pdf

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<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2007/10/26/BU5KT090D.DTL>

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