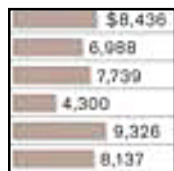


Ripple effect of foreclosures touch entire communities

Kelly Zito, Chronicle Staff Writer

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Beyond the stark drama of the individual homeowner's foreclosure, neighborhoods and local governments also are suffering in the subprime fiasco, according to an economic study by an advocacy group urging policymakers to help at-risk homeowners keep their properties.

The national report, one of the latest to examine the ripple effect of the mortgage crisis, said areas with larger minority borrowers could be hit harder because many subprime loans were made to African Americans and Latinos.

"The losses (from foreclosures) are extending to neighbors and to entire communities," said Martin Eakes, chief executive of the Durham, N.C., Center for Responsible Lending, which released the survey on Tuesday. "The spillover effect is disturbing because we've only just begun to see the foreclosures."

Based on federal home loan data, the group said 22,000 homeowners around the nine-county Bay Area who took out subprime loans in 2005 and 2006 face home repossessions. Those foreclosures could depress the values of hundreds of thousands of neighboring homes by \$11.6 billion.

On a national basis, foreclosures could undermine prices of 44.5 million nearby properties to the tune of \$223 billion - or about \$5,000 per home - the study said.

Last month, a similar report by the Senate Joint Economic Committee predicted foreclosures would force neighboring homes values across the nation to drop by about \$32 billion.

Such statistics offer ripe political fodder but ignore the economics underlying the housing correction, according to Christopher Thornberg, an economist with Beacon Economics.

"Foreclosures aren't causing prices to fall - it's a symptom of the whole thing unraveling," Thornberg said. "If you had no foreclosures at all, prices were still going to fall. (Foreclosures) may accelerate the process, but it's a process that has to happen one way or another because when you look at (home) prices relative to income, it's completely insane."

As home prices across the nation soared in recent years, more borrowers took out exotic high-cost loans with low initial rates in an effort to keep monthly payments affordable. But as home prices softened and interest rate increases boosted payments, many people found they could not make the monthly payments and could not refinance to a less-expensive loan. With foreclosure auctions happening around the country, lenders reeling from record losses and borrowers crying foul on lenders, many are looking for answers.

Shanna Smith, executive director of the National Fair Housing Alliance, blames much of the crisis on "exploding ARMs." Some such adjustable-rate mortgages carried initial rates so low that payments for some homeowners jumped 30 percent when the rates increased the first time. She said many borrowers were pushed toward those loans because they carried higher fees, which made them more lucrative for brokers and lenders.

"Policymakers, regulators and investors stood idly by as social and economic injustice rained down on these borrowers," Smith said.

Now, the groups are urging lawmakers to change the rules of the mortgage game.

The Center for Responsible Lending supports several anti-predatory-lending laws that have passed in North Carolina, Ohio, Rhode Island and Tennessee. And the group is backing a measure set for a vote by the House Thursday that would prohibit lenders or brokers from steering borrowers into loans that aren't beneficial, and would ensure that the borrower could make payments on the loan at the fully amortized rate.

Thornberg agrees that some borrowers were the victims of unsavory lending practices. But he balks at the idea of a policy fix to a problem that was the result of missteps on all sides - by lenders, brokers, bankers as well as speculators, and even borrowers.

"It's a blatant populist attempt to basically not let the market mechanism work here," Thornberg said.

"I'm sympathetic to people who got caught up in this thing, and there are people who deserve a second chance. This is not a way to do it."

"That's why we have civil courts."

Online resource

See the report at:

links.sfgate.com/ZBOJ

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<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2007/11/14/BU6CTBKE9.DTL>

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