

Report: Foreclosures Will Sap U.S. Cities

Metro Areas Face Billions Of Dollars In Lost Economic Activity Next Year

Comments 40

DETROIT, Nov. 27, 2007



A "foreclosure" sign tops a "for sale" sign outside a home in Denver. A new report says rising foreclosures will cost major U.S. cities billions of dollars in lost economic activity next year. **(AP)**

Rising foreclosures will lead to billions of dollars in lost economic activity next year in major U.S. cities, but homeowners and financial institutions have the ability to work together to contain the effects, said a report released Tuesday.

The report was compiled for a conference of U.S. mayors in Detroit. The mayors hope to create policy recommendations to help address the nation's housing crisis.

Prepared by forecasting and consulting firm Global Insight, the report said weak residential investment, lower spending and income in the construction industry and curtailed consumer spending because of falling home values will combine to hold back the nation's economic activity.

"The wave of foreclosures that has rippled across the U.S. has already battered some of our largest financial institutions, created ghost towns of once vibrant neighborhoods - and it's not over yet," the report said.

The biggest losses in economic activity are projected for some of the nation's largest metropolitan areas. New York is expected to lose \$10.4 billion in economic activity in 2008, followed by Los Angeles at \$8.3 billion, Dallas and Washington at \$4 billion each, and Chicago at \$3.9 billion.

The report estimates U.S. gross domestic product growth in 2008 will be 1.9 percent, coming in about \$166 billion - or one percentage point - lower as a result of mortgage problems. GDP is the value of goods and services produced and is considered the best barometer of the country's economic fitness.

The report also projects property values will decline by \$1.2 trillion in 2008, due in part to the foreclosure crisis, with drops in home prices across the U.S. averaging 7 percent. And it said the loss of property, sales and real estate transfer taxes will hurt local and state governments.

But homeowners, banks, holders of mortgage-backed securities and loan servicers can work together to ease the economic effects, the report said. Agreeing to new payment terms on some loans, for example, could make the difference between a family keeping a home and losing it in foreclosure.

"Such actions will help to lessen the number of foreclosures thereby avoiding the further negative effects on local housing markets and on the broader economy," according to the report, titled "The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas."

The Detroit conference will address the state of the mortgage industry, ways homeowners can avoid

foreclosure, and strategies to keep foreclosed properties from dragging down the quality of life in neighborhoods.

The mayors' recommendations are to be presented at a conference in January.

People Buying a home for living in, didnt do that much to boost the economy because those people now have a larger mortgage to pay. Thats been the same for 100 yrs. Most of them werent trying to get Balloon mortgages because they have to live there,who can pay a balloon payment unless you have big cash?

However, those low initial rate to balloon pmt mortgages were basically for the House Flippers market. Now those are being left to foreclosure when prices drop & profits arent there.

The major reason? easy home equity loans at low to high rates, Poured money into the economy like water. The real affect of inflated housing prices came from People taking out HomeEq loans off their newly appraised home. This sent 10s of 1000s per customer into the economy by way of Paying for College tuition, new cars, paying off credit cards and loans freeing up more purchasing power, computers/electronics, new furniture, Home updates and remodeling (which fueled Home Depot, Lowes, and others like crazy) All those things went right into the economy and boosted it in big chunks. that never happened in the past.

This was a 1 time 10 yr period of rediculous boost that is now gone.

With Credit tightened like a vise, and many people that had gotten loans no longer able to, housing prices dropping to or even below mortgage values, it wont happen again in the near future if ever again.