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Homeowner Equity Below 50% for First Time Since 1945

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Americans' percentage of equity in their homes fell below 50 percent for the first time on record since 1945, the Federal Reserve said Thursday.

Homeowners' portion of equity slipped to downwardly revised 49.6 percent in the second quarter of 2007, the central bank reported in its quarterly U.S. Flow of Funds Accounts, and declined further to 47.9 percent in the fourth quarter -- the third straight quarter it was under 50 percent.

That marks the first time homeowners' debt on their houses exceeds their equity since the Fed started tracking the data in 1945.

The total value of equity also fell for the third straight quarter to \$9.65 trillion from a downwardly revised \$9.93 trillion in the third quarter.



Home equity, which is equal to the percentage of a home's market value minus mortgage-related debt, has steadily decreased even as home prices jumped earlier this decade due to a surge in cash-out refinances, home equity loans and lines of credit and an increase in 100 percent or more home financing.

Economists expect this figure to drop even further as declining home prices eat into the value of most Americans' single largest asset.

Latest on Housing and Mortgages:

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Moody's Economy.com estimates that 8.8 million homeowners, or about 10.3 percent of homes, will have zero or negative equity by the end of the month. Even more disturbing, about 13.8 million households, or 15.9 percent, will be "upside down" if prices fall 20 percent from their peak.

The latest Standard & Poor's/Case-Shiller index showed U.S. home prices plunging 8.9 percent in the final quarter of 2007 compared with a year ago, the steepest decline in the 20-year history of the index.

The news follows a report from the Mortgage Bankers Association on Thursday that home foreclosures skyrocketed to an all-time high in the final quarter of last year. The proportion of all mortgages nationwide that fell into foreclosure surged to a record of 0.83 percent, while the percentage of adjustable-rate mortgages to borrowers with risky credit that entered the foreclosure process soared to a record of 5.29 percent.

Experts expect foreclosures to rise as more homeowners struggle with adjusting rates on their mortgages, making their monthly payments unaffordable. Problems in the credit markets and eroding home values are making it harder to refinance out of unmanageable loans.

Mortgages			
LOAN TYPES	RATE	LAST WEEK	APR
30 yr fixed	5.94%	▲	6.10%
30 yr fixed jumbo	6.90%	▲	7.02%
15 yr fixed	5.43%	▲	5.68%
15 yr fixed jumbo	6.25%	▲	6.47%
5/1 ARM	5.17%	▲	5.45%
5/1 jumbo ARM	5.82%	▲	5.66%
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The threat of so-called "mortgage walkers," or homeowners who can afford their payments but decide not to pay, also increases as home values depreciate and equity diminishes. Banks and credit-rating agencies already are seeing early evidence of this.

On Tuesday, Fed Chairman Ben Bernanke suggested lenders reduce loan amounts to provide relief to beleaguered homeowners.

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