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American dream sours as housing market collapses

By Philip Sherwell in Denver, Sunday Telegraph

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For Cathy Busby, May 1 marked a personal "Mayday!" as she was sucked into the housing crisis sweeping the United States.

On Tuesday, she went into arrears on her mortgage after her monthly repayments soared by 40 per cent. The 47-year-old hospital administrator will lose the three-bedroom home in the Denver suburb of Montebello that she bought 11 years ago, unless she can reach a deal with her lender.

"I raised my sons here and I planted these aspens and landscaped this garden. It's a terrible thought that I could lose it all," she said on the first day that she failed to pay her interest-only -mortgage.

Miss Busby is far from alone: the American dream of [home ownership is turning sour](#) for many. Up to two million people with so-called subprime, or high risk, -mortgages have already had their homes repossessed, or will default on their loans in the coming months, according to industry estimates.

Such houses are generally sold at auction, for less than the full market price. Home owners' losses will total an estimated \$164 billion (£82 billion), according to the Centre for Responsible Lending, an independent research group.









Cathy Busby is unable to meet the repayments on her home of 11 years after interest rates rocketed by 40per cent

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Borrowers and lenders are losers alike: last month a major mortgage lender, New Century Financial, went bust. In February, HSBC issued the first profit warning in its 142-year history as a result of losses incurred by its American wing on subprime loans.

advertisement The crisis will also play a role in the race for the White House as Democrats call for a federal bail-out plan while Republicans say that would be a waste of taxpayers' money.

The explosion in defaults began last autumn, but many Americans are now realising that the contagion is spreading. The slow down in the housing market - home building has fallen for 11 of the last 12 months - was the main reason for a slump in US economic growth to 1.3 per cent in the first quarter of this year, compared to 2.5 per cent in the preceding three months.

"The subprime crisis is very serious," said Brad Inman, a housing market watcher and founder of the online real estate information service, Inman News.

Repossessions are nothing new in the rustbelt communities of America's Mid-West and North East, where industrial decline has taken a heavy toll.

But the topography of the new crisis is striking, as many of the worst-affected areas are in California, Arizona, Nevada and Colorado, where Miss Busby lives.

These western states witnessed a decade-long boom in house prices, fuelled by their popularity as places to live. "Folks thought that prices would rise indefinitely," said Tom Rooney, a Denver property entrepreneur who scours official "foreclosure" notices for homes that he can buy, then "flip" for a profit.

"It seemed like a good bet, but they got it wrong."

Miss Busby knows that. Two years ago, she took out a re-finance mortgage to cover her existing car, home and student loans. She borrowed \$170,000, the value of her home, at an interest rate of 7.6 per cent (or \$1,076 a month).

She knew that rate would increase after two years, but planned to take out another loan at that point to avoid the extra charges.

However, when she had her house revalued a few months ago, it was worth \$125,000, falling with the slowdown in the market.

Unable to refinance the original loan, she must now pay a higher rate of interest, 10.6 per cent, which means payments of \$1,501 a month, a \$425 increase. "With my other outgoings, I can't afford that," said Miss Busby, a divorcée who earns \$4,000 a month before tax.

She has now signed up to a campaign by Acorn, a lobby group for low-income families,

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calling for a moratorium on foreclosures, a rescue fund and new laws to clamp down on predatory lending techniques.

But for other Montebello residents, such as the Hispanic family that walked away from their debts and left the house next to Miss Busby empty, it is already too late.

The same is probably true for Harvey Ryan, who built his home 32 years ago. "It breaks my heart," said Mr Ryan, 58, who suffers from dementia.

He took a loan of \$115,000 four years ago and now his home is scheduled to be sold at auction this month as he cannot meet the monthly charges of \$1,052, nearly half his disability income and pension.

But even as dreams end for some, doors open for others. On the streets of Montebello, Kelli Caswell, 44, from the nearby town of Aurora, was looking at repossessed properties with her teenage daughter, Tabatha.

"I feel for these people, but there might be a chance for us to buy a new home," she said.



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