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Home foreclosures soar in US

By Naomi Spencer

9 October 2006

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The social impact of the bursting of the US housing market is already being registered in a sharp increase in home foreclosures. In August, the foreclosure rate rose a staggering 53 percent over the same period a year ago. In Michigan, Ohio, and other states hard hit by mass layoffs in manufacturing, the impact has been particularly severe.

In August, 115,292 new properties were listed on the database of online foreclosure tracker RealtyTrac, a 24 percent increase over the level in July. More significantly, RealtyTrac currently lists 650,000 properties nationwide in foreclosure or pre-foreclosure, up from 75,600 just one year earlier, when the Gulf Coast was devastated by Hurricane Katrina.

The volume of bank seizures is immense. Foreclosure.com, another online tracker of distressed properties, currently lists more than 1.27 million properties in some stage of foreclosure, bankruptcy, or bank auction. Approximately 5,000 properties are added to the listings each day.

Currently, Foreclosure.com has nearly 11,000 foreclosures and 28,500 bankruptcies listed for Ohio; Michigan has 11,000 properties listed as foreclosures and 19,500 involved in bankruptcy proceedings; Indiana has 5,500 foreclosure listings and 12,000 bankruptcies; Illinois has 12,900 foreclosures, 30,000 pre-foreclosed properties, 27,400 bankruptcies, and 9,600 properties with tax liens on them.

In cities built on manufacturing, such as Detroit and Cleveland, foreclosures and bankruptcies are highly concentrated. Cleveland and surrounding Cuyahoga County account for 5,900 of the distressed properties in Ohio.

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Wayne County, which includes Detroit, has more than 16,400 distressed property listings on Foreclosure.com, up by 5,000 in less than a week. Most are bank owned and auctioned foreclosed properties. Chicago's Cook County has an alarming 46,000 distressed properties listed, 21,000 of them in pre-foreclosure for payment delinquencies.

In addition to the massive number of foreclosures in the Midwest, government figures show that house depreciation has been the worst in cities in Michigan, Indiana and throughout the so-called rust belt, where home values did not appreciate previously as they did throughout much of the US.

Florida, California, and Nevada, all states which saw the most activity in home sales and had among the highest home prices over the last few years, saw the largest numbers of foreclosures last month, with foreclosures up by 62 percent to 255 percent from a year ago.

The decline in the housing market carries dire social implications for tens of millions of working class families which have barely managed to get by over the past few years. As the cost of living rose, real wages stagnated or declined, and the national economy generated relatively few decent-paying jobs. Together with huge increases in health care and energy expenses, housing costs have impelled Americans to take on massive debt.

Debt burden is ballooning in the US. Statistics from the Bureau of Economic Analysis show that the personal savings rate has been running in the red for 16 months. Additionally, the Federal Reserve recently found that consumer debt has outpaced, by 18.7 percent, the amount of income left after the payment of bills each month, meaning that for millions of families the cost of living is substantially higher than their monthly incomes can accommodate.

An enormous portion of the total personal debt is mortgage debt. Since 2000, mortgage debt in America has doubled, approaching \$9 trillion.

This year, \$400 billion of this debt is coming due in the form of mortgage readjustments. Research firm LoanPerformance projects another \$1 trillion in mortgage debt will come due next year as the rates on millions more loans reset, sending individual monthly mortgage payments hundreds of dollars higher.

The increase in foreclosures is driven in large part by rising monthly mortgage payments on "exotic" loans. In the late 1990s, the Federal Reserve Board relaxed lending standards for banks and commercial brokers, allowing

sub-prime and outright predatory forms of loans to proliferate.

After interest rates were slashed to stimulate the economy, banks were able to hook millions of Americans with low incomes or poor credit histories into loans on homes they could not otherwise afford. At the same time, the Bush administration aggressively promoted an “ownership society,” capitalizing on the desire of working people to achieve the “American dream.”

The option adjustable rate mortgage (ARM) was one of the most popular forms of home loans at the height of the housing boom in 2004 and 2005, bringing millions of new borrowers into the market with its option to make only the minimum payment each month.

A decade ago, sub-prime loans made up less than 5 percent of new mortgages. But in 2004 and 2005 the proportion doubled, and according to the National Association of Mortgage Brokers, the activity of banks and other brokers dealing in exotic loans such as option ARMs now accounts for 80 percent of all mortgage originations.

Many option ARMs allow homebuyers to pay only the interest each month for an introductory period, with the rest of the payment added to the principal of the mortgage, resulting in a process called negative amortization. In negative amortization, minimum payments actually increase the total cost of a home.

Depending on the type of option ARM, after either the end of the introductory period or after the mortgage balance exceeds a set amount, the ARM automatically resets at a substantially higher rate. Fitch Ratings, a banking industry tracker, estimates that four out of five option ARM mortgage holders make only the minimum payments.

When the option ARMs reset, borrowers face either monthly payments that are as much as 25 percent higher, or thousands of dollars in penalties and fees for refinancing their mortgages.

At the same time, housing prices are dropping, and many ARM borrowers are locked into mortgages that cost more than the house will be worth upon resale, with little or no equity built up as a financial cushion. This position all but guarantees ruin for mortgagees at the slightest economic shudder.

Census Bureau data released October 3 indicates that from 2000 through the housing peak in 2005, home costs rose faster than home values. The report indicated that millions of renters and homebuyers spend excessively high

proportions of their incomes on housing. In some cities within regions that experienced the most home value inflation, such as in California, Colorado, and Texas, the majority of mortgage holders were spending a third or more of their monthly incomes on housing.

Residents in cities with depressed markets took on some of the largest housing burdens, paying more as wages declined. According to the Census report, the highest increases in real median monthly mortgage costs were found in Detroit (24.1 percent) and Chicago (21.7 percent). Detroit's median rental cost increases were second highest in the nation, behind San Diego and ahead of Los Angeles, where the housing market grew the most.

A report from the private research firm Moody's Economy.com, also released October 3, projected sharp home value declines in the immediate future. Nationally, the median sale price is forecast to drop by 3.6 percent in the coming year, according to the report, "Housing at the Tipping Point." This would be the first year-over-year decline since the Great Depression. In some areas, home values could drop nearly 20 percent, including in the Midwest.

Moody's projects that the largest decline will hit Danville, Illinois, a former auto production hub for General Motors. Danville has already seen an 18.7 percent drop in home prices in the last year due to more auto industry layoffs.

It is clear that job cuts, energy-driven inflation—and the higher interest rates imposed by the Federal Reserve to keep inflation in check—are compounding the pressure felt by working Americans. Yet the painful consequences of this reality find no meaningful reflection in media coverage, the political campaigns of major party candidates, or federal policy. On the contrary, the decline in the housing market has been characterized as a temporary "price correction." This euphemism is in part calculated to contain panic and prevent a mass sell-off before housing values decline further.

Regardless of the media spin, the combination of ARM loan resets, general inflation, and housing devaluation contains the potential for a spiral of bankruptcies and foreclosures that could lead to a sharp decline in consumer spending and another economic recession, which would in turn have a significant negative impact on global markets.

The entire situation expresses the highly unstable state of the US economy and the insecure economic position of tens of millions of American families, a significant number of which are already only one or two paychecks away from a downward spiral into homelessness and destitution.

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