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Foreclosure Crisis Spreads Across U.S. as Idaho Defaults Mount
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By Dan Levy

Aug. 12 (Bloomberg) -- Nan Holmes, a senior escrow officer at a title insurer, says her insider's view of the local market gave her the confidence three years ago to pay \$370,000 for a new home in Boise, Idaho. She got a price she liked from the builder and 100 percent bank financing.

That was before the bottom fell out of the housing market in California, Nevada and Florida as borrowers with bad credit began defaulting in record numbers, setting off a recession. Holmes, who had earned \$150,000 a year when real estate was booming, saw her compensation shrink by half when business cooled, forcing her to dip into savings and sell jewelry. She stopped paying the mortgage in April and has put the house on the market for \$145,000 less than she owes the bank.

"How long will it take for the market to turn so I can just break even?" Holmes, 55, said as she sat in her house in Boise's tree-lined Collister neighborhood, four miles (6.4 kilometers) from the state capitol.

Home foreclosures are climbing in the Northwest and Midwest, areas that had earlier dodged the worst of the mortgage crisis, according to real estate data firm RealtyTrac Inc. With 14.6 million Americans out of work and consumer spending declining, further weakness in housing could push the economy back into recession, former Federal Reserve Chairman Alan Greenspan said Aug. 1.

Foreclosure rates in Utah, Idaho, Illinois and Colorado rose in the second quarter compared with a year earlier, and rank among the 10 highest in the country. The number of homes seized by lenders at least doubled in 19 states and more than tripled in seven of them, according to Irvine, California-based RealtyTrac.

Later in Cycle

"The housing downturn started late in the Northwest and now it's ending late," said Mark Zandi, chief economist at Moody's Analytics in West Chester, Pennsylvania. Idaho, Oregon and Washington lagged behind the national cycle and will suffer declines after other areas stabilize, he said.

New defaults are declining and appear to have bottomed in states where the crisis began, falling 43 percent in California, 37 percent in Florida and 27 percent in Nevada in the second quarter from a year earlier, RealtyTrac's data show.

"The worst is over, but it's going to be a long road ahead," said economist Steven Frable at IHS Global Insight Inc. in Lexington, Massachusetts.

July Data

Last month, 325,229 U.S. properties got a notice of default, auction or bank repossession, RealtyTrac said today in a report. While that's an increase of 4 percent from June, the number was down almost 10 percent from a year earlier. One in 397 households received a filing. Lenders seized 92,858 properties in July, the second-highest monthly tally since RealtyTrac began records in January 2005.

"The numbers are exploding due to unemployment and economic displacement," said Rick Sharga, senior vice president of marketing at RealtyTrac. "We will see them get a lot worse unless we see some job creation."

Initial jobless claims rose in July and unemployment stood at 9.5 percent, near a 27-year high, Labor Department figures show. More than 4.5 million people are collecting unemployment benefits and an additional 3.9 million are getting emergency and extended payments. Fed Chairman Ben S. Bernanke told Congress on July 21 the outlook is "unusually uncertain."

Chicago Jobs Disappear

Chicago lost 76,000 jobs in the year through June, the most in any metropolitan area tracked by the U.S. Bureau of Labor Statistics. Denver lost 18,900, Detroit 18,700. Employment dropped 4.1 percent in Grand Junction, Colorado, and 2.7 percent in Bend, Oregon, the data show.

Home seizures soared 822 percent in Idaho in the second quarter, and the state had the seventh-highest foreclosure rate, according to RealtyTrac. Boise's median house price was \$140,100 in the quarter, down 34 percent from the peak \$212,800 in 2007, the National Association of Realtors said yesterday.

The metropolitan area, home to a third of Idaho's 1.54 million residents, has been pummeled by housing-related construction and retail job losses, as well as layoffs at chipmaker Micron Technology Inc. and grocer Albertsons, said Michael Ferguson, the state's chief economist.

Idaho's jobless rate was 8.8 percent in July, up from 8.2 percent a year earlier and 2.9 percent in July 2007.

"This is an off-the-chart, extreme financial event," Ferguson said. "I wasn't around for the Depression, but in the last half century there has been nothing like this."

Cows and Corn

In Charter Pointe, a development built on corn fields 11 miles from downtown, more than half of the homes listed for sale are bank-owned or "underwater," meaning the property is worth less than the mortgage. Dairy cows wander in a nearby pen, and baling machines grind into the night.

"The neighbors aren't used to living next to farming operations with manure and flies," said Richard Murgoitio, who sold 70 acres to Hubble Homes Inc. in 2001 and would like to sell his remaining land to builders. "We're hoping they take us all out, if the economy ever turns around."

Micron, founded in Boise in 1978 with early investors including the late potato mogul J.R. Simplot, cut local production and 1,500 jobs last year as chip prices fell. The company has more than 5,000 full-time workers in the area, said Daniel Francisco, a Micron spokesman. It employed twice that number as recently as 2001, Ferguson said.

Budget Cuts

Albertsons cut its local payroll following a 2006 buyout by companies including Eden Prairie, Minnesota-based Supervalu Inc. and private-equity firm Cerberus Capital Management LP of New York. The acquisition ended seven decades of Boise ownership for the grocery chain and its plans for as many as 1,000 new hires, the state economist said.

Idaho lost 6.9 percent of its jobs from 2008 through 2009, compared with the 4.9 percent U.S. average, and its timber industry payrolls fell 38 percent, according to IHS Global.

Government workers and services haven't been spared. The state budget, which peaked at \$3 billion in 2008, dropped by a fifth to \$2.38 billion in the fiscal 2011 year that began July 1. More than 200 positions were cut and furloughs imposed in agencies including health and welfare, tax collection and the attorney general's office, Ferguson said.

The value of residential transactions in Ada County, which includes Boise, declined 62 percent in June from the peak four years earlier, multiple listings data show. Boise had the highest metro foreclosure rate outside California, Florida, Nevada or Arizona in the first six months of the year, RealtyTrac said.

Short Sale Sought

Holmes said her company, TitleOne Corp., is down to 80 employees from a high of 175 in 2007. Her lender, Bank of America Corp. of Charlotte, North Carolina, took the first step toward foreclosure in July.

Holmes, a divorced mother of two, put her house on the market in June and has applied for a federal program that offers incentives to loan servicers, investors and homeowners to complete short sales, in which the bank accepts less than what it is owed on the mortgage.

She's asking \$225,000 and hasn't had an offer. A third of real estate listings in her area are distressed properties, with seven months of inventory on the market in Boise at her price.

"I was never raised to be in this position," Holmes said, showing pictures of her 6-year-old granddaughter and oversized bathroom tub. "I've tried everything I can think of."

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--With assistance from Brian Louis in Chicago and Bob Willis in Washington. Editors: Larry Edelman, Kara Wetzel

To contact the reporter on this story:

Dan Levy in San Francisco at +1-415-617-7077 or dlevy13@bloomberg.net

To contact the editor responsible for this story:

Kara Wetzel at 1-212-617-5735 or kwetzel@bloomberg.net.

