One in 8 U.S. households late paying or in foreclosure

By Lynn Adler

NEW YORK (Reuters) – About one in every eight U.S. households, a record share, ended 2008 behind on their mortgage payments or in the foreclosure process as job losses intensified a housing crisis spawned by lax lending practices, the Mortgage Bankers Association said on Thursday.

With unemployment at a 16-1/2-year high and rising, more borrowers will be late paying or fall into foreclosure this year, said the group's chief economist Jay Brinkmann.

"While California, Florida, Nevada, Arizona and Michigan continue to dominate the delinquency numbers, some of the sharpest increases we saw last quarter in loans 90 days or more delinquent were in Louisiana, New York, Georgia, Texas and Mississippi, signs of the spreading impact of the recession," he said.

U.S. President Barack Obama's $275 billion housing stimulus program will standardize modifications for distressed loans and pave the way for more refinancing.

That should smooth differences caused by various moratoria by states and companies that temporarily curbed the surge in foreclosures in the fourth quarter, Brinkmann said.

"But keep in mind that there are three drivers to the housing problem, and this program of course addresses mostly the first one," relating to loan structure, underwriting quality and fraud, Brinkmann said.

The two other problems still loom large -- an oversupply caused by overbuilding and foreclosures, and unemployment.

Having one in eight households late paying or in foreclosure is "unacceptable in a country like ours," said Nicholas Bratsofolis, senior managing director of structured refinance at mortgage bank LendAmerica in Melville, New York.

"Instead of wringing our hands, I think we should start utilizing the tools that the government has given to us to remedy the ills that are facing many of these homeowners," he said. The administration housing rescue won't be a quick fix, however, he added.

A record 11.18 percent of loans on one-to-four unit residences were at least one payment past due or in the foreclosure process in 2008.

The delinquency rate jumped 2.06 percentage points from a year ago to a record 7.88 percent. The share of loans in the foreclosure process leaped 1.26 percentage point in the year to a record 3.30 percent. MBA started tracking the data in 1972.

Housing has yanked down the U.S. economy growth after being a key driver of it earlier this decade. In a vicious cycle, a weakening economy is now further siphoning demand for homes.

"In a recession like this, housing is never just about housing," said Jed Kolko, associate research director at the Public Policy Institute of California in San Francisco. "Unemployment leads to foreclosures, foreclosures contribute to lower tax revenues, less consumer spending -- it's all related."

MORE STATES WITH MORE PROBLEMS

As the economy sours, more states have joined the five that had been primary trouble spots for late payments and foreclosures.

"We see New York being influenced by the layoffs that we've been seeing on Wall Street and some of the rest of the industry associated with that," he noted.

"Some of the Southern states that had construction-related unemployment, whether it was forest product or plywood manufacturing. Some of the tourism industry is now being hit, certainly in Mississippi with the casinos, and in Florida."

Subprime adjustable-rate loans and prime ARM loans still drive the late payments, but that is shifting.

"We will continue to see, however, a shift away from delinquencies tied to the structure and underwriting quality of loans to mortgage delinquencies caused by job and income losses," Brinkmann said.

Of particular concern, he said, is a sharp pickup in joblessness among people with college educations.

By the end of last year, "we saw some sharp pickups in delinquency rates with prime loans and I think that's now going to continue as long as we see unemployment continue to climb among the people most likely to own homes," Brinkmann said.

How high unemployment in that segment of the population gets and how long it stays there will "determine ultimately how long the prime fixed loan delinquencies continue to climb," he said. "Some of these people do have adequate reserves to last maybe six months or a year without a job, but the longer this thing goes on the quicker they then run through those reserves and their loans go delinquent."