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Article published Jun 24, 2007

## Foreclosure surge signals uncertainty

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Foreclosures are putting a damper on an already sluggish housing market in Southwest Florida.

The degree to which they will temper any recovery in home sales, which show signs of rebounding in the Sarasota-Bradenton market, is difficult to gauge.

The number of foreclosures in the region spiked during May, and Manatee County was fifth among all Florida counties in terms of per-capita foreclosures. However, the number being repossessed by lenders remains relatively small in the region, at about 5 percent of all homes in foreclosure.

The rapid rise and fall in Southwest Florida's housing left no one surprised by the foreclosure fallout, but the confluence of problems in the all-important business disturbs some market watchers.

"We all knew it was coming," said Steve Jonsson, president of Bradenton's Flagship National Bank. "I'm not sure the housing market can get much worse, quite frankly."

The shaky economy is also hurting home sales: insurance and property taxes have soared, gas is falling but remains close to \$3 per gallon, and layoffs are hitting the boating industry, builders and local governments in the region, Jonsson said.

"There's too much uncertainty out there for potential buyers to make that major decision."

Banks still have plenty of money to lend, but they have tightened their standards to require stronger credit and more money down from borrowers, Jonsson said.

"They aren't doing 95 percent loans like a couple years back," he said. "If you put 10 percent down, have good credit and a good job, banks are more than willing to make loans."

Several other lenders, including some of the area's largest like SunTrust and Washington Mutual, declined to be interviewed about foreclosures, saying it has negative connotations.

Bankers are worried, but are quick to note that homeowners in foreclosure remain only a small portion of their borrowers, said Bret Rock, spokesman for the Florida Bankers Association. "The overwhelming majority of mortgage holders in Florida pay their mortgages on time and have never had any issues," he

More and more, technology might come to the rescue of people who were drawn into disadvantageous loans during the recent housing boom.

A small California company's software has the potential to help mortgage shoppers avoid foreclosure by getting them a loan that is fairly priced to begin with, Harvard University concluded in a report on foreclosure prevention.

Prepared for Neighborworks America, a congressionally chart-ered organization that seeks to promote neighborhood revitaliza- tion, the report explained that foreclosures often begin when the borrower receives the wrong loan.

The "Mortgage Grader" software ([mortgagegrader.com](http://mortgagegrader.com)) matches borrowers to only the best loans provided by national brand lenders through accurate, automated loan pricing.

"When a platform such as Mortgage Grader is in place that delivers the best loans as your only choices, your odds of foreclosure exposure diminish substantially," wrote Dr. William C. Apgar, a senior scholar at the Joint Center for Housing Studies at Harvard.

According to another study called "The External Costs of Foreclosure" by Dan Immergluck of the Georgia Institute of Technology and Geoff Smith of the Woodstock Institute, "Our most conservative estimates indicate that each conventional foreclosure within an eighth of a mile of a single-family home results in a 0.9 percent decline in value."

-- Stephen Frater

said.

The default rate in the subprime segment of the U.S. mortgage market, which caters to borrowers with poor credit histories, has jumped in recent months as the housing industry has slowed and prices have fallen.

Late payments and new foreclosures on adjustable-rate home mortgages made to people with spotty credit histories grew to all-time highs in the first three months of this year.

In Southwest Florida, the foreclosure hot spots remain in North Port and north of the Manatee River -- two areas with large swaths of homes and condominiums that attracted investors during the recent housing boom.

Another substantial concentration was in Port Charlotte, east of U.S. 41.

The number of foreclosure actions filed in Manatee County during May rose 164 percent from April. In Sarasota County, foreclosures rose 104 percent, putting it 10th in the the state. Charlotte County foreclosures rose 74 percent, placing it 16th.

Three other west coast counties -- Lee, Hillsborough and Pinellas -- were in the top 20 statewide last month.

### **Too many homes and condos**

Southwest Florida has had a particularly fierce post-boom hangover. Large numbers of homes are on the market as investors who bought during the boom try to cash out.

"It's not that people are being kicked to the curb and losing their homes," said Mark Vitner, senior economist with Wachovia Corp. "It's more similar to the folks who were day trading in dot-com stocks and were losing their money."

Florida -- which had the second-highest number of May foreclosure filings at 21,704, behind only California's 39,659 filings -- had more investor activity in the real estate market than any other state during the boom, Vitner said.

He estimates that nationwide, 750,000 more homes and condos were built than could be absorbed, and 150,000 of those are in Florida.

He said the housing boom never hit nationwide, but was confined to Florida, Texas, California, Nevada and parts of Virginia and New York.

"It doesn't surprise me that we are seeing a lot of foreclosures in these markets," he said.

Real estate peaked in Florida around November 2005, and the correction is now only halfway through, Vitner said.

"We should see things bottom out late this year or in early 2008," he said. "I wouldn't expect to see significant improvement in the Florida marketplace until 2009."

But others say the outlook is better. Susan Wachter, a professor of real estate and finance at the University of Pennsylvania's Wharton School who prepares a quarterly "U.S. Mortgage Payment Index," says nearly 9 of 10 borrowers with risky one-year adjustable-rate mortgages refinanced into long-term, fixed-rate loans during the first quarter of 2007, a 4 percent increase from the same time last year.

"There are areas with pockets of foreclosure, and Southwest Florida is one of those areas." Wachter said. But nationally, she said, "a lot of people have taken down risky mortgages."

### **Losing their home**

But Southwest Florida's rising foreclosure rate is roiling the lives of some residents, and not just investors.

Kathleen and Linda Maggi and their three dogs are living in an unfurnished \$700-a-month Port Charlotte rental unit, partially with money provided by the generosity of strangers. While appreciative of the help they have received from anonymous donors, the sisters have taken a huge step down in their quality of life.

They see no prospect "to ever own a home again," Linda Maggi said.

Three years ago, they were homeowners with good credit. Today, that credit is shot and their North Port home -- built by bankrupt builder Construction Compliance Inc. and financed by troubled Bradenton lender Coast Bank of Florida -- was repossessed by Coast on May 31.

The pressures that built during the past few months have taken their toll on the sisters. Having lived together all their lives, the sisters almost never argued -- until recently, when they found themselves in a screaming match over nothing and everything.

Kathleen Maggi has a credit card with a principal outstanding amount of about \$18,000, but late fees, penalties and interest accrual have made the bill more than \$40,000. She also needed a four-day hospitalization in the last few months, which cost the sisters another \$35,000 they do not have.

But the Maggis are the clear exception to the rule.

Only a small percentage of foreclosure filings result in court-mandated eviction and repossession. Homeowners in the vast majority of cases catch up on payments with their lender, refinance the loan, sell the property or re-negotiate the terms of the mortgage.

During May, for example, in Sarasota, Manatee and Charlotte counties, 1,432 properties were in some stage of foreclosure, but only 73 homes were repossessed by lenders, or about 5.1 percent of the total.

### **The big picture**

In a recent speech, Federal Reserve Chairman Ben Bernanke predicted delinquencies and foreclosures will increase this year and next as interest rates on many subprime adjustable-rate loans rise. Analysts estimate that nearly 2 million adjustable-rate mortgages will reset to higher rates in 2006-07.

Some subprime borrowers were lured by low "teaser" rates. Teaser rates can rise sharply after the first few years, causing payment shocks.

Still, Bernanke said it was unlikely that troubles in the subprime market would spill into the broader economy or the financial system.

Loose lending standards contributed to problems in the subprime market, he said.

Congress is looking into possible action. The Fed also is considering tougher rules.

"In doing so, however, we must walk a fine line," said Fed Governor Randall Kroszner in a public hearing last week. "We must determine how we can help to weed out abuses while also preserving incentives for responsible lenders."

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