Portland Business Journal - September 1, 2008
http://portland.bizjournals.com/portland/stories/2008/09/01/story1.html

PORTLAND BUSINESS JOURNAL

Friday, August 29, 2008

Subprime problems loom

As mortgages reset, foreclosures could flood local real estate market

Portland Business Journal - by Wendy Culverwell Business Journal staff writer

More than half of all subprime mortgages in the Portland area will reset by the end of the year, bringing continued pain to a housing market that has struggled with a rising inventory of unsold homes for more than a year.

The news comes despite Portland's relatively high ranking in this week's Case-Shiller Home Price Index, which tracks home prices in 20 cities. Portland home prices declined 5.8 percent in the second quarter, a smaller decrease than all but four major cities.

The looming number of mortgage resets, however, means a full recovery is likely at least six months off. The resets will push up house payments and likely put a fresh wave of foreclosures on the market.

That's bad news for a residential market that, as of July, had enough homes listed to satisfy demand for 10 months.

"It will have a tremendous impact unless the investors who hold those mortgages work out arrangements with the homeowners," said Victoria Bingham, president and chief executive officer of PacificRim Mortgage, a Tigard company that wrote 980 mortgages totalling $200 million in 2006.

More than 1,700 subprime mortgages will reset in the Portland-Vancouver-Beaverton area by the end of 2008. That's nearly 53 percent of those left to reset, according to **First American** CoreLogic, a California-based loan data aggregator.

Subprime loans are typically given to borrowers with bad credit who don't qualify for traditional mortgages. Many include provisions to reset the interest rate, often adding hundreds of dollars to a monthly mortgage payment and pushing it beyond the means of the borrower.

Bingham said she's seen many homeowners turn their keys over to the bank.

"I've never seen anything as bad as this," said Bingham, who said she arranged a number of subprime loans when the economy was humming. "At the time, they were good loans."

She blames worsening economic conditions that make it hard for customers to keep up with payments.

Additionally, a significant number of Alt-A loans, which require little or no documentation and have been dubbed “liar loans,” will start to reset in significant numbers in about a year. According to First American, 11 percent of local “liar loans” will reset. That jumps to more than 17 percent in the next year. The major problem with both types of loans is no one knows whether borrowers will be able to pay what’s usually a higher interest rate after they reset. Subprime loans, for example, can often reset at a rate 6 percent above the borrowers’ current rate.

And because they’re inherently more risky, there’s a greater chance borrowers will default when compared to average mortgage holders with traditional loans, said Mark Fleming, chief economist with First American.

“What it means will be different depending on the reasons those loans were taken out in the first place and the types of borrowers who took those loans out,” Fleming said.

The industry will find little salvation in home values. Having banked on rising values to shore up questionable mortgages, prices in the Portland area are now falling, although not as much as other parts of the country.

Falling prices have not yet reached a point to induce enough buyers back into the market.

The **Regional Multiple Listing Service** reported 5,237 new listings in June, down a bit from a year ago as owners who don’t need to sell choose not to list homes in a down market. The number of sales that closed fell more than 30 percent, to 1,831.

The average price was $340,500, down more than $12,000 from a year ago. And it took an average of 72 days to sell a home in July, 20 days more than 2007.

Taken together, it adds up to an inventory that’s enough to satisfy demand for about 10 months. That’s twice the number needed for a market that is balanced between buyers and sellers.

The residential housing industry is resting its hopes on a housing stimulus bill recently signed into law. Its chief provision awards a tax “credit” worth up to $7,500 to first-time home buyers who close on a home between April 9, 2008 and July 1, 2009. The credit has to be repaid to the **Internal Revenue Service** over a period of 15 years, but is interest-free.

Kate Myers, a Realtor with Coldwell Banker Barbara Sue Seal Properties, recently bought a fixer-upper in Lake Oswego. She’s already made plans to use the credit to replace the furnace, which died shortly after the sale closed..

Myers is grateful for the credit and many of her first-time buyers are eager to take advantage. But she’s skeptical.

“I see a limited number of places where this will be the tipping point,” she said.

She said it's more critical for banks to figure out how to sell homes that have been foreclosed on and which often sell for a price that is below the outstanding mortgage, the so-called "short sale." Banks have to agree to accept less from buyers. The uncertainty of the process makes many buyers leery of looking at short sale properties, she said. For owners trying to sell a house in lieu of foreclosure, it can be frustrating when no one is even willing to tour a property.

"Banks not creating a culture where people can exit," she said. "It's the bank's responsibility to finish up on their duties. Where's the industry push to rectify this?"

The wave of subprime resets has sent foreclosure rates soaring. While Oregon has fared far better than California and Florida, two of the top foreclosure states, there is a rising tide of foreclosed properties, according to RealtyTrac.

RealtyTrac recorded 779 new foreclosures in Oregon in July, bringing the 2008 total to 8,601. Locally, there were 336 foreclosures in Multnomah County, 235 in Washington County, 234 in Clackamas County and 313 in Clark County.

In June, 257 foreclosed Oregon homes sold for an average of $205,064, well below the local average.

Kirsten Grind of affiliated publication the Puget Sound Business Journal contributed additional reporting. *wculverwell@bizjournals.com | 503-219-3415*