One in 7 U.S. mortgages foreclosing or delinquent

By Julie Haviv

NEW YORK, Nov 19 (Reuters) - A record one in seven U.S. mortgages were in foreclosure or at least one payment past due in the third quarter, according to fresh data signaling the recovery in the housing market will be tepid at best.

U.S. mortgage delinquency rates and the percentage of loans that entered the foreclosure process also jumped to records from July to September, the Mortgage Bankers Association said on Thursday.

Rising job losses were behind the increasingly bleak portrait of the housing market in a trend that will continue into next year, the group said in data that adds to recent evidence of a still-struggling housing market.

Housing and related business account for about 20 percent of the economy and recovery is essential to bring unemployment down from a 26-1/2-year high and kick-start economic growth.

Yet record foreclosures will add to the growing supply of unsold homes, sapping the housing market as it attempts to recover from the worst slump since the Great Depression.

The MBA said the percentage of loans in foreclosure rose to 1.42 percent, from 1.36 percent in the second quarter and 1.07 percent in the third quarter of 2008.

"Foreclosures remain the biggest hurdle to the housing recovery," said Michelle Meyer, economist at Barclays Capital in New York.

"Foreclosures will be worse in the first part of 2010 and we do not see a peak in foreclosures until the middle of next year."

More conservative, prime fixed-rate loans often sold to homebuyers with the highest credit ratings continued to represent the largest share of foreclosures started and were the biggest driver of the increase in foreclosures, said MBA chief economist Jay Brinkmann.

The delinquency rate for mortgage loans on one-to-four-unit residential properties rose to a seasonally adjusted rate of 9.64 percent of loans outstanding, up from 9.24 percent in the second quarter and 6.99 percent a year earlier, the MBA said.

The delinquency rate broke the record set last quarter, based on MBA data going back to 1972. The rate includes loans that are at least one payment past due but does not include loans somewhere in the process of foreclosure.

The latest splash of cold water follows a stunning 10.6 percent plunge in housing starts for October, reported on Wednesday. For details see [ID:nN1899353].

The combination of loans in foreclosure and at least one payment past due was 14.41 percent on a non-seasonally adjusted basis, the highest ever seen in the survey.

In fact, 33 percent of foreclosures started in the third quarter were on prime fixed-rate loans and those loans were 44 percent of the quarterly increase in foreclosures, Brinkmann said.

"The foreclosure numbers for prime fixed-rate loans will get worse because those loans represented 54 percent of the quarterly increase in loans 90 days or more past due but not yet in foreclosure," he said.

The percentage of loans in the foreclosure process at the end of the third quarter was 4.47 percent, up from 4.30 percent in the second quarter and 2.97 percent a year earlier.

Florida, California, Arizona and Nevada have a disproportionate share of these problems, Brinkmann said.

They had 43 percent of all foreclosures started in the third quarter, down from 44 percent both last quarter and the third quarter last year. They had 37 percent of the nation's prime fixed-rate loan foreclosure starts and 67 percent of the prime adjustable-rate mortgage, or ARM, foreclosure starts.

At the end of September, 25 percent of mortgages in Florida were at least one payment past due or in foreclosure, he said.

OUTLOOK BLEAK

The outlook is for delinquency and foreclosure rates to continue to worsen before they improve, Brinkmann said.

"First, it is unlikely the employment picture will get better until sometime next year and even then jobs will increase at a very slow pace," he said.

"Second, the number of loans 90 days or more past due or in foreclosure is now a little over 4 million as compared with 3.9 million new and previously occupied homes currently for sale, although there is likely some overlap between the two numbers," he said.

Therefore, the ultimate resolution of these seriously delinquent loans will put added pressure on the hardest hit sections of the country, Brinkmann said.

http://www.reuters.com/article/idUSN1937065020091119