

November 2008

## ***Foreclosures Plague Economy***

I get a lot of exercise as I walk through your neighborhood delivering newsletters. But I also get an education. The number of vacant and foreclosed houses is worrisome, and the corrosive effect it can have on neighborhoods demands government attention. Are there ways to help those in danger of losing their homes regain their financial footing, and what would it take to help the real estate market to stabilize?

### ***Best Resource for Understanding the Credit Crisis***

The best explanation I've heard for what caused the Credit Crisis was a one hour radio program out of Chicago called *This American Life*. The name of the episode was "*Another Frightening Show about the Economy*." This was a follow up to an earlier episode called "*The Giant Pool of Money*." The show explains, in simple language anyone can understand, what the Commercial Paper Market and Credit Default Swaps are, how they work, and what went wrong. You can listen to both over a computer by connecting with Public Radio International ([pri.org](http://pri.org)) and clicking on links for *This American Life* and archives to find the shows.

Let's start with the scope of the problem. Just how many foreclosed houses are there in Macomb County? And how does that compare with historical levels? And finally, the question everyone wants to know: When will we hit the bottom and start to recover?

Perhaps it is human nature to avoid bad news, but the biggest hurdle facing people at risk of home foreclosure is overcoming the sense of shame and depression over their finances and finding the courage to confront the problem.

The advice I get from the experts, the credit counselors, banks, and mortgage companies is simple. *Don't ignore the notice from the bank or skip payments without discussing your problems. Call your lender, bank or mortgage company.* Everyone loses on a foreclosure, so it is in everyone's interest to work out a resolution whenever possible.

Pick up the phone and ask for help. Do not suffer in silence and hope the problem will go away. If you try one source and can't get help, try another.

### ***#1 Mistake by Homeowners Leading to Foreclosure***

Not responding to a written notice of arrearage. Don't become a statistic. Pick up the phone and ask for help. Here are several options for credit counseling:

Michigan State University Cooperative Extension, Anne Lilla, 586 469-5180

Lighthouse Community Development, Debbie Hostos, 586 649-2016

Your Bank/Credit Union/Mortgage Company

As a review of the table below shows, 2008 foreclosures are on track to surpass those for the full year of 2007. Will foreclosures increase again in 2009, or has the worst of the crisis passed? A lot of that depends on both the economy and what government policies we put in place to address the crisis.

Using 2006 as the baseline year before the collapse of the housing market, it is clear that foreclosures have more than doubled in two years. The days of easy credit are over, so there are fewer buyers, and the market is flooded with houses, which has driven down prices. Recently, sales have picked up, but they are sales for far less than the market price of two years ago. My friends in the real estate business say houses are selling, and statistics suggest sales have doubled over last year's level. But half those sales are of foreclosed homes. Until the pace of foreclosures slackens, and the supply of vacant housing is reduced, prices will not recover.

I asked my builder friends how long they think it will be before anyone builds a house "on spec," meaning without a buyer who has signed a contract for the house. Their best guess is 5 years. Their business now is mainly in rehabs, and the shaky commercial market.

The impact of the housing market collapse on individuals can be devastating. It also has a severe financial impact on state and local government. Per Macomb County Finance Director Dave Diegel, we normally experience annual growth in property values of about 4%. But this year, values are declining about 5%. Instead of growth helping to pay for the higher cost of gasoline, heating and electric bills, and wages, tax revenues for the County will actually decline, creating an additional deficit. With the County starting \$33 million in the red, and making tough cuts, the loss of another \$15 million makes a tough budget even tougher to balance. The County's fund balance is rapidly dwindling.

Local governments, like Roseville, Clinton and Sterling Heights, face similar difficulties. Nor is the state exempt. State Property tax is a significant portion of the state's funding for schools.

As the Federal Government is discovering, there is no easy way to solve this problem.

Underlying it all are weak fundamentals that just won't go away. Nationwide, some 4 million homes are at least one payment behind on their mortgage, and a half million are in some stage of foreclosure. One in five homeowners owes more on their house than the house is worth.

In Michigan, that number approaches one quarter. At the weekly Sheriff's Foreclosure Sale, the vast majority of the foreclosed homeowners have no equity in the house they have lost.

Until this situation changes, the housing crisis will not abate.

Lenders have become much more careful about whom they extend credit to. And consumers would be well advised to reduce personal debt as much as possible. It's time to rededicate ourselves to the values that made our grandparents "The Greatest Generation."

### *Selected Macomb County Foreclosures*

<i>Municipality</i>	<i>Total houses</i>	<i>Foreclosures</i>		
		<i>2006</i>	<i>2007</i>	<i>2008(projected)</i>
Roseville	17,469	291	462	618
Utica	1,427	6	16	36
Clinton Township	30,690	257	456	571

Sterling Heights	41,496	244	488	693
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*Source: Sheriff's Foreclosures Report, Macomb County Planning & Economic Development.*