BUSINESS

# More homeowners above water

## Change accompanies strong jump in prices

**By Julie Schmit**
USA Today

A big jump in home values has pulled 3.2 million homeowners above water on their mortgages in the past year, but that pace will slow if home price gains taper.

At the end of June, 12.2 million homeowners with mortgages — 23.8 percent — remained underwater, owing more on their mortgages than their homes were worth, according to an analysis by Zillow. That's down from 15.3 million a year ago.

The drop in underwater borrowers correlated with a robust jump in home prices, which were up 12.1 percent for the 12 months ended in June, Case-Shiller's 20-city index shows.

Fewer underwater homeowners is a big plus for the economy, said Mark Zandi, chief economist at Moody's Analytics.

Rising home values make people feel wealthier so they're more likely to spend. On the flip side, if homeowners are underwater, they're more cautious with spending, Zandi says.

Underwater borrowers are also more likely to default on home loans, which can weigh on surrounding home values. They also face more obstacles to refinance into lower-cost mortgages, which can also hurt their spending, said Svenja Gudell, Zillow senior economist.

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While millions of homeowners remain underwater, another 18 percent of mortgaged homeowners have 20 percent or less equity in their homes, Zillow's data show.

That much equity is generally needed to sell one home and have enough funds to buy another one. The swollen ranks of underwater and low-equity homeowners have affected the existing home market, Zandi said. Many people feel they can't sell, or they don't want to sell, at today's prices, he said.

Of the top 30 markets covered by Zillow, Las Vegas has the most deeply underwater homeowners. Almost 13 percent of mortgaged homeowners there owe twice or more what their home is worth. Miami is second with 8.7 percent of mortgaged homeowners in that situation, followed by Detroit at 8.2 percent.

Overall, Las Vegas also has the highest percentage of mortgaged homeowners who are underwater, at 48.4 percent. Atlanta is next at 44 percent and Orlando at 39.8 percent.