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Mortgage delinquencies drop

Could be a sign that foreclosures have peaked

By Stephanie Armour
USA TODAY

The share of homeowners behind on their mortgages fell in the first quarter, the first drop in four years and a possible sign that the foreclosure crisis has peaked.

The portion of mortgages that were delinquent 30 days or more fell to 6.57% in the first quarter from 6.60% in the last three months of 2009, according to data from Equifax and Moody's Economy.com.

That's a drop of about 16,630 delinquent loans and, while modest, it is the first decline in the delinquency rate since early 2006.

"It will take years to work through all the troubled mortgage loans in the foreclosure pipeline, but this is the first indication that the number of loans entering the pipeline is declining," says Mark Zandi, chief economist for Moody's Economy.com. "It portends a peaking of the foreclosure crisis."

Delinquencies in almost all categories — 30-, 90- and 120-day delinquencies on single-family properties — declined.

Reasons for the improvement:

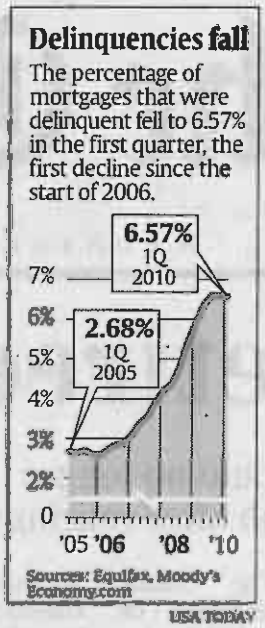
▸ Tougher lending standards since the housing bust have kept riskier borrowers from getting mortgages.

▸ Mortgage modifications have helped tens of thousands of troubled homeowners stave off delinquencies.

▸ A more stable job market is preventing new mortgage delinquencies. The unemployment rate held steady at 9.7% in March, and non-farm jobs increased by 162,000.

"I wouldn't be surprised if we're at the peak," says Joel Naroff of Naroff Economic Advisors.

But the pipeline of homes in the foreclosure process is likely to take years to clear out. In 2008, 2.3 million households received a foreclosure notice, and that number climbed to 2.8 million in 2009, according to RealtyTrac. More than 3 million households are expected to get foreclosure notices this year.



One issue is strategic defaults by borrowers who walk away from their mortgages — even though they can afford to pay — because they owe more than their homes are worth.

Millions of homes have negative equity and perhaps 20% to 25% of recent defaults have been strategic, according to a new Moody's Economy.com analysis.

More strategic defaults could increase the pace of home foreclosures and hamper new borrowers' attempts to get mortgages, it says.

"There is still a foreclosure problem that is going to cause people to lose their homes, but in terms of new delinquencies starting, those are probably at their peak," Zandi says.