FEDERAL STANDARD ABSTRACT
TITLE NEWS

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MORTGAGE CRISIS, CONTINUED

The mortgage crisis we wrote about in last month's newsletter shows no signs of abating. Reports that foreclosure filings nationwide have jumped 36% from July, and more than doubled in the past year, indicate that more and more homeowners are unable to make their monthly mortgage payments. Others are having difficulty in selling their homes in the current market. New York City has been spared much of the housing slump, but default notices, auction sale notices and bank repossessions are up. In the last year alone, nearly 15,000 New Yorkers have lost their homes due to the sub-prime mortgage crisis. Over a year ago this newsletter warned of this coming crisis, and found that the practice of loaning to those who can't afford it was under scrutiny.

Locally, Queens County has been hit the hardest. Data from RealtyTrac, a real estate information firm, reveals that foreclosure filings here are 92% higher this year, and that the county has about double the statewide percentage. Many small homeowners who refinanced their mortgages now find themselves in way over their heads. Adjustable rates and interest-only loans that seemed attractive and affordable have become onerous once the higher rates kick in and the principal becomes due. Many people accepted the ARMs with the promise they'd be able to refinance, only to find they don't qualify or that the high-risk lending market has dried up.

Alan Greenspan, former chairman of the Federal Reserve, has his own ideas about the current situation. He acknowledged to the New York Times that "the housing frenzy had been pumped up in part because of very low interest rates and in part because of the growing willingness of mortgage lenders to underwrite dubious and often fraudulent loans that were much bigger than many homeowners could realistically afford." But the 18-year head of the Federal Reserve thinks it's a mistake to blame the Fed's interest rate cuts for the current situation, noting that the drop in inflation and interest rates has been a global phenomenon, "in part because of the end of the Cold War and the rise of China as a manufacturing colossus." He also points out that the housing boom has affected over 40 countries, all driven in part by low interest rates.

But the question remains: are low interest rates a help or a hindrance in the housing market and in the general economy? With the Feds taking direct aim at the growing credit crisis, the recent half-point cut in a key interest rate, the first in four years, has been greeted with enthusiasm by Wall Street, which just posted its highest numbers ever. Most commercial banks dropped their prime lending rate, making it less expensive for homeowners to take out home equity lines of credit, which in turn are often used to pay for education, home improvements or medical bills. The Feds made their aggressive move in a bid to steer the economy away from recession. In a statement released at the time of the rate cut, the Federal Reserve explained that "the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally." Others remain optimistic: Greg McBride, a senior financial analyst, says "It's not a cure-all to the housing market crisis, but it will help some people stay in their homes." How this will really play out remains to be seen.

The job market is another area that has been affected by the mortgage crisis. Since mid-summer, global investors haven't been interested in many of the debt securities that banks have offered these past few years, including bonds backed by sub-prime mortgage portfolios. Wall Street is expecting massive layoffs in the financial industries, some predicting up to 10,000 by years end. This in turn affects other types of jobs, from business services to restaurants and entertainment. Mayor Bloomberg is expecting an economic slowdown, warning that "the economies of our world and our city are cyclical and it looks sadly that we're going from one of growth to one of hopefully not decline, but certainly nowhere near as much growth if any." He has already asked city agency heads to lower spending and slow down on new hiring.

But all is not bad news. While condo prices are down as much as five percent in some areas of the outer boroughs, Manhattan has avoided most of the city housing woes. With prices across the nation at 16-year lows, it seems that Manhattan sellers are sticking firmly to their asking prices. A broker at a prominent real estate agency says "I've discussed it with some sellers about adjusting their prices, but there's a standoff -- they think the Federal Reserve's rate cut was their reprieve." He also believes that the widening housing stagnation -- both existing home sales and new home sales are sluggish -- will "take a while, months, to soak in" with Manhattan sellers. Many areas of Manhattan are expected to weather the storm, including stable areas like the Upper West Side, Upper East Side, Midtown East and Murray Hill. Newer residential areas like the Financial district are also looking more attractive. And the outer boroughs have not been left out, either. Money is tighter, but upcoming areas in Queens such as Jackson Heights, Astoria and Sunnyside continue to grow, while Brooklyn neighborhoods like Prospect Heights, Bushwick and Bensonhurst are still price-stable. Although it seems we have entered a more circumspect age, with banks being more cautious and housing staying longer on the market, for some buyers it could pay to wait.

If you have any questions or comments, contact us at fsa@federalstandardabstract.com