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Arkansas Democrat Gazette

NORTHWEST ARKANSAS EDITION

Defaults on home loans up in state

BY DAVID SMITH
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Foreclosures jumped almost 50 percent in Arkansas in June from a year earlier, a California research firm said Wednesday.

There were 1,667 Arkansas homes that received some form of foreclosure notice in June, up 48 percent from 1,146 foreclosures in June of last year, according to RealtyTrac, an Irvine, Calif., firm that follows foreclosures nationwide.

The total last month was almost the same as in May of this year, when RealtyTrac said 1,671 foreclosures were filed in Arkansas.

There was one foreclosure notice for every 772 homes in Arkansas last month, the 22nd highest foreclosure ratio in the country, RealtyTrac said.

Foreclosures in Arkansas this year have varied from a 16 percent year-over-year increase in March to the 48 percent annual increase in June.

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Foreclosures will continue to cause a strain on the economy even through a recovery from the recession, Kathy Deck, director of the Center for Business and Economic Research at the University of Arkansas at Fayetteville, said Wednesday.

"The longer the recession continues, the less likely it is that any individual can hold on," Deck said.

Foreclosures that occurred in Arkansas and nationally when the recession began in December 2007 were tied to marginally qualified borrowers who were offered risky lending methods to buy a home, such as subprime mortgages, said Jeff Collins, an economist with Streetsmart Data Services near Fayetteville.

"Those folks are all gone and the effects of subprime lending have been washed out of the Arkansas market," Collins said. "Now what you are seeing are the effects of the recession [causing foreclosures]."

Now a major cause of foreclosures for individuals is unemployment, both Deck and Collins said. When an individual loses his job, it may become impossible to continue paying the mortgage. The state's unemployment rate in May was 7 percent, the most recent information available.

"Probably a fraction of those people were just getting by [before losing their jobs]," Collins said.

Another contributor for the increase in foreclosures is the financial collapse of builders and real estate developers, Deck said.

The lack of demand for real estate has gone on so long that even developers who had the liquidity to meet their financial obligations are under extreme pressure, Collins said. When they no longer can cover their debt, they are forced into foreclosure.

"That's when they have to give back entire subdivisions," Deck said.

It is likely that more Arkansas developers will face foreclosures in the near future, Collins said.

"I think you're going to see some more big name [developers] in the not-too-distant future whose properties are going to be foreclosed on and then they'll file for bankruptcy," Collins said.

Nationally, there was one foreclosure for every 380 households in June, RealtyTrac said. That was a jump of 33 percent from June last year and almost 5 percent higher than in May this year.

As in recent months, Nevada had the highest concentration of foreclosures last month with one foreclosure for every 59 homes, RealtyTrac reported. California was next with one foreclosure for every 132 homes, followed by Arizona with one for every 158 houses.

The housing industry, as well as local, state and national legislative

action, has tried to curtail the increase in foreclosures, James J. Saccacio, chief executive officer of RealtyTrac, said in a prepared statement. In spite of those efforts, "foreclosure activity continues to increase to record levels," Saccacio said.

"Unemployment-related foreclosures account for much of this increased activity," Saccacio said. "And the high number of borrowers who find themselves owing more on their mortgages than their homes are now worth represent a potentially significant future risk. Stemming the tide of foreclosures is a critical component to stabilizing the housing market."

For the first six months of the year, there were 8,646 foreclosures in Arkansas or 1,441 per month, RealtyTrac said. That was up about 25 percent from the first six months of 2008.

Nationally, there were more than 1.5 million foreclosures in the first six months this year, about 15 percent higher than the same period last year, RealtyTrac said.

The accuracy of RealtyTrac's foreclosure statistics, which are used widely by the news media, has been questioned by media outlets and mortgage lenders, but RealtyTrac says it stands behind its methodology.

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