Mortgage delinquency rates down in first quarter

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The national Mortgage Bankers Association released some good news on May 19 – delinquency rates dropped in the first quarter of the year.

Specifically, the national delinquency rate – which is a measure of both how many mortgages are in foreclosure and/or are 90 days behind in payments – was 8.32 percent at the end of the first quarter. That's on par with rates in the fourth quarter of 2010 and 1.74 percent down from the rate posted in the first quarter last year.

Why should home owners and potential sellers care? According to Kathy Deck, director of the Center for Business and Economic Research at the University of Arkansas, high foreclosure rates mean declining home prices. As long as foreclosures are at the high levels we've seen these past few years, there will be downward pressure on prices – that can be good news for buyers and bad news for sellers.

Any indication that foreclosures are dropping, then, could well mean the housing market is starting to stabilize. That's not to say that we won't see more falling prices and that foreclosures won't be a problem in the months to come, but a recovery has to start somewhere. Time will tell if we're starting to see things turn around in housing markets across the nation.

We'll almost certainly have the foreclosure issue with us for another year or so, and that's largely due to the deterioration of the subprime lending market in 2007. A lot of risky mortgages left consumers in a position where they couldn't keep up with their house payments, and that set off a chain of events that all but eliminated subprime lenders through the first half of 2007.

The problem with those lenders is that they kept writing mortgages through the first few months of 2007. Quite often, those were adjustable rate mortgages that offered fantastic introductory rates and then reset to new interest rates five years later, quite often leaving home owners with high mortgage payments they couldn't meet.

Since the number of those loans decreased significantly through the first half of 2007, Deck said we'll see a large number of foreclosures through the first half of 2012. The good news, however, is that the subprime mortgage market didn't just perish – lenders operating in that arena generally wrote fewer loans as it became obvious that default rates were becoming a problem.

Hopefully, then, we're seeing falling delinquency rates linked to that period of time when the subprime lending market was thinning out and fewer loans were issued. Whether delinquency rates will drop in the current quarter remains to be seen as subprime loans are but one factor that's figured into the number of foreclosures across the country – unemployment rates and a struggling economy have pushed more than a few families into positions where they are unable to pay their mortgages.

Still, we are looking at large inventories of homes for sale, downward pressure on markets and rates on 30-year, fixed interest mortgages that are below 5 percent. It's a good market for people looking to purchase homes provided they qualify for mortgages. We know it's a buyer's market right now, but how long will it remain one?

Home Sweet Home is written by Ethan C. Nobles and is sent weekly to publications throughout the Natural State on behalf of the Mortgage Bankers Association of Arkansas.

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