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That Sinking Feeling (Gwen Moritz Editor's Note)

By Gwen Moritz
8/24/2009

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Having enough trouble getting facts straight in the publication for which I am responsible, I hesitate to wade into problems with other news organizations' reporting. However, the front page of the Arkansas Democrat-Gazette on Aug. 15 sent me into fact-checking mode.

Could it be true, as a headline and story asserted, that one in four mortgage holders owe more on their houses than the houses are worth, even in a place where home prices never went nuts and subprime lending never gained much traction?

Either my understanding of our housing market is very wrong or there's something wrong with the study on which the article was based.

The 25 percent figure - 24 percent for the Little Rock metropolitan statistical area and 31 percent for the Fayetteville MSA - came from a new report by First American CoreLogic of Santa Ana, Calif., which specializes in property valuations. The Democrat-Gazette did a pretty good job of reporting what that report said.

It also quoted three Arkansas economists on the subject of "negative equity." But, if you read carefully, you'll notice that not one of them actually endorsed CoreLogic's conclusion. Michael Pakko, the new state economic forecaster and chief economist for the University of Arkansas at Little Rock's Institute for Economic Advancement, was quoted as saying such a high percentage of "underwater" mortgages surprised him.

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I called all three economists - Pakko, Kathy Deck at the University of Arkansas at Fayetteville and Jeff Collins of Streetsmart Data Services - and asked them point blank: Do you believe it? All three said they felt the number was inflated. "It seems impossible for the numbers to be quite that high," Kathy Deck told me, "but I didn't have any alternative data."

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In fact, Deck said, she wasn't sure how CoreLogic came up with its data since she wouldn't be able to replicate it on a small scale - say, just for Washington County.

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