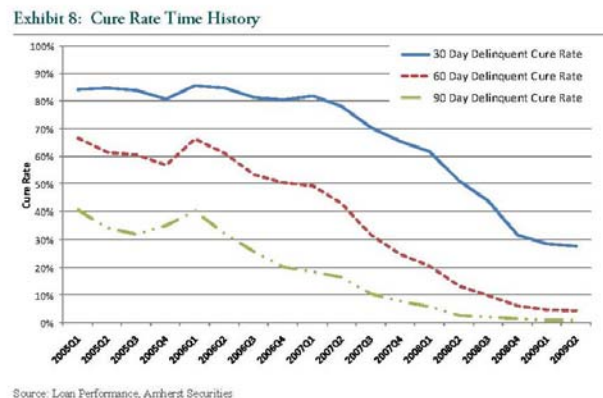


One in Ten Mortgage Borrowers Will Lose Their Home

New Observations is forecasting that a minimum of one in ten homes with a mortgage today will be lost to foreclosure in the next two years and that this loss represents a staggering five-million-unit addition to inventory-for-sale.



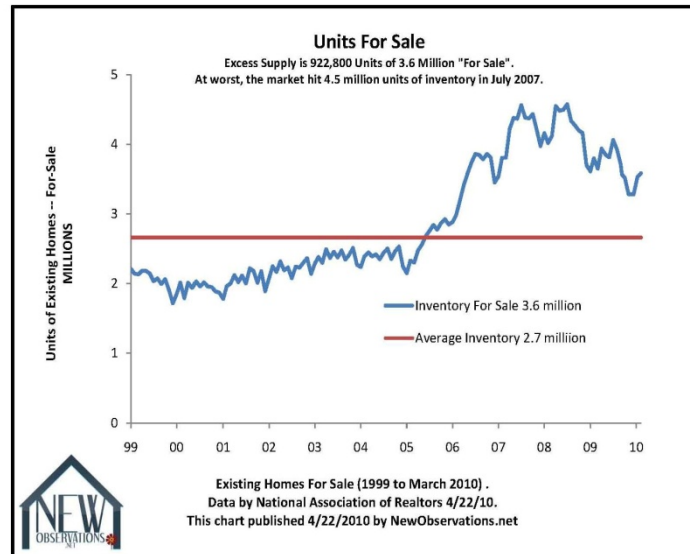
Mortgage Performance / Cure Rate – Fourteen percent of borrowers are 30-days late or worse. The cure rate at 60-days late is almost zero. "Warning. Warning. Danger Will Robinson."

A record high 4.63% of mortgages were in foreclosure at the end of March. The Mortgage Bankers Association reported Wednesday. Much worse, a mammoth 9.54% of mortgages are 90-days or more past due.

Given cure rates are slim-to-nothing-at-all beyond a 60-day delinquency, in practical terms, all of these seriously-delinquent homes will be lost through a sheriff's auction, a short sale, a deed-in-lieu passing title from borrower to bank, or some other variant of distressed sale. Amherst Securities Group in a Sept. 2009 report said of the cure rate: "The cure rate on 60+ loans has decreased from 66% in early 2005 to 5% in Q2 2009."

If 50 million homes carry a mortgage, and with 10 percent lost to the bank in the next two years, five million units will be added to the current for-sale inventory. The five million bank-repo homes works out to about 10 months of sales at an average rate. Amherst estimated 7 million liquidations to the bank, but it was unclear over what period of time. The numbers will have even a more exaggerated impact if mortgage-payment performance continues to fall.

Current inventory is at eight months. The recent inventory high was 11 months in April 2008. Our figures already show current supply for-sale at 3.6 million



INVENTORY -- The total units for sale is high and may be moving to an excess which will push prices down.

units – which we have estimated is excessive by over 900,000 units. In an average month 500,000 existing homes sell.

In another derogatory sign, purchase applications fell 27 percent to their lowest point since May 1997. A government-paid down-payment program ended April 30th.

The guestimate that one-in-ten mortgage borrowers will lose their home is not a wild proclamation. It's basic math. What is wild is considering what will happen to real estate prices should mortgage failure gain greater momentum.

A crash has the same irrational exuberance as a mania. We have already lost 30 percent of house prices nationwide. There is simply no question that a radical loss in value may still lie ahead.

Please forward questions, corrections, and reactions to comments below or send me an email. Please send an email if you would like to take out a new mortgage.

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