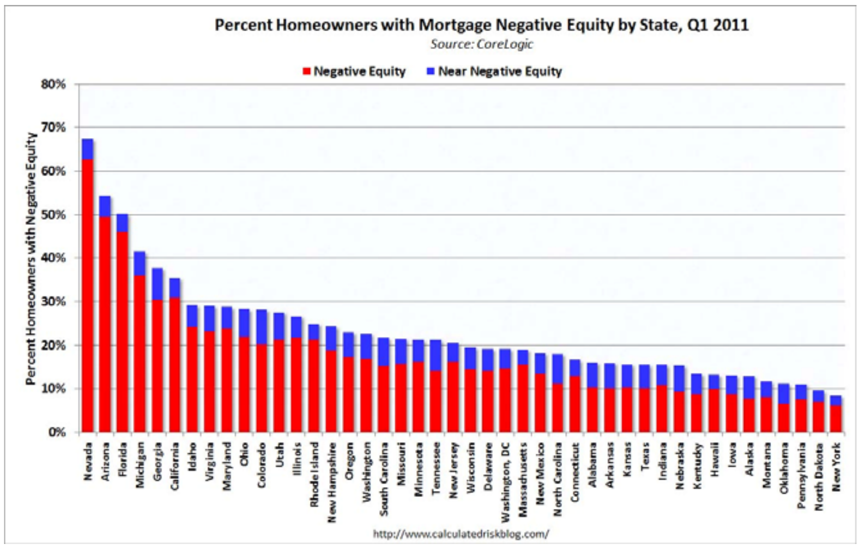
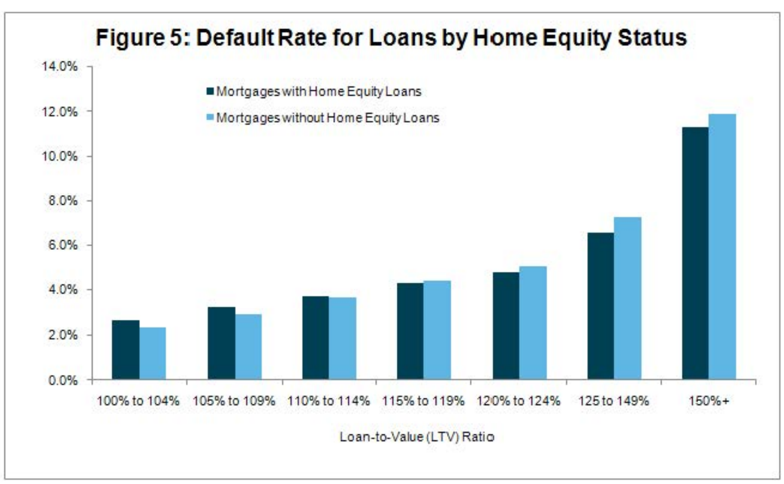
13 Million Homeowners or 28 percent with a mortgage in or Near Negative equity

CoreLogic reported today that 27.7 percent of all homeowners with a mortgage are near or in negative equity.

Negative equity borrowers are "underwater" and "upside down" with mortgage debt greater than the value of their home.



The housing crash has created crippled zombie states which have incomprehensible negative-equity stats. In Nevada 63 percent of all mortgaged properties are underwater. In Arizona = 50 percent. Florida = 46 percent. Michigan = 36 percent. California = 31 percent. (Please see the chart above from Calculated Risk showing negative-equity by state. Click for expanded view.)



A High negative-equity borrower is roughly SIX TIMES more likely to default compared to a borderline case.

Macro-economy watchers should be focusing carefully on price behavior in these monster-crash states. They may preview the price falls in housing we have yet to see in more stable states. (Please see the chart above showing the tie between negative-equity severity and the default rate. Homeowners at 150% LTV are about six time more likely to default compared to borrowers at 100%-104% LTV.)

The new CoreLogic report drew front-page attention from the Wall Street Journal (Second-Mortgage Misery) which examined a hard link between second mortgages and negative equity. They quoted a Federal Reserve Board study saying homeowners withdrew $2.69 trillion of cash out from their homes between 2004 and 2006. That's a serious debt binge.

Only 18 percent of borrowers without home-equity loans were underwater while 38 percent of borrowers with home-equity loans were in a negative equity position. The stats say the average positive-equity homeowner has 1.2 mortgages per property while the average negative-equity homeowner has 1.6 loans.

“Many borrowers in negative equity are still able and willing to make their mortgage payments. Those in negative equity and impacted by an income shock of some kind, such as a job loss, divorce, or death, are much more likely to be at risk of foreclosure or a short sale,” said Mark Fleming, chief economist with CoreLogic.

Financial crisis watchers are aware that major commercial banks including Wells Fargo & Co., Bank of America Corp., J.P. Morgan Chase& Co., and Citigroup Inc. are huge holders of second mortgages.