

More than 5 Million Homes Will be Worth Less than 75% of Their Mortgage

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About 5.1 million mortgage holders (or roughly 10% of Americans with mortgages) will own homes that are worth 75% or less than what they owe on their mortgages by mid-June. This is the conclusion of a new study by First American CoreLogic given exclusively to *The New York Times*. One of the firm's senior economists, Sam Khater, [told the paper](#), "People's emotional attachment to their property is melting into the air." The most astonishing number in the study is that it would take \$745 billion to get mortgages to the point where no home loans in the U.S. were underwater.

This research is another example of why the housing problems in the U.S. are so intractable. [Building permits rose 11%](#) in December, but housing starts were down. RealtyTrac recently forecast that about 3 million homes will go into foreclosure this year, up slightly from the 2009 numbers. A large number of interest-rate only mortgages will reset higher in the next two years, raising monthly payments on those loans.

Despite low mortgage rates, which have in some cases fallen below 5%, and tax credits for some home buyers, people are reluctant to purchase new houses. Some fear that they could become unemployed like 10% of the full-time work force. Others are concerned that home prices will continue to fall and that even a home bought in 2010 could have an underwater mortgage of its own in 2011.

The likelihood that homeowners will reach a point of despair also increases as more homes drop below the value of the mortgages that their owners carry. That in turn makes it more likely that people will hand their keys over to the bank. And troubled banks, particularly regional and community banks, are often not in good enough financial shape to handle mass mortgage defaults, which then puts pressure on the FDIC's resources.

The federal government is left with few options. Even if it saw fit to put \$745 billion into programs that would reduce mortgages on homes with underwater loans, the cost is too high with the federal budget deficit for this fiscal year projected to be nearly \$1.6 trillion.

Without a solution, and there are almost certainly no solutions forthcoming, home values will continue to drop this year and probably into next.

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