Fannie and Freddie Delinquencies Move Into Uncharted Territory

- September 30, 2009, 7:00 AM ET

Home prices have posted six straight months of increases, but few housing analysts are prepared to give a clean bill of health to the housing patient. (There are exceptions.) One big reason: Borrowers continue to miss loan payments.

Rising delinquency rates point to an eventual increase in homes that will go into—and sell out of—foreclosure. Finding a bottom for the housing market gets a bit easier once the market can adjust and absorb that distressed inventory. Fannie Mae and Freddie Mac, the two state-backed mortgage-finance giants, both showed that serious mortgage delinquencies (those that are three months or more late) continue to reach into uncharted territory.

The serious delinquency rate on single-family home loans backed or held by Fannie Mae crossed 4% in July for the first time ever, to 4.17%. One year ago, the rate was at 1.45%. Freddie Mac reported that its serious delinquency rate reached 3.13% in August, up from 2.95% last month and 1.11% one year ago.

Fannie's worst performing loans are "Alt-A" loans, a step between prime and subprime, that were made in 2006 and 2007. Delinquencies on the Alt-A book of business reached 11.9% at the end of June, compared to 3.94% for all loans. Serious delinquencies on Alt-A loans originated in 2006 and 2007 hovered around 17%.

Many of those Alt-A loans, which didn't require income documentation and became known as "liar's loans," had interest-only features that allowed borrowers to defer principal payments for an initial period or option adjustable-rate mortgages, which allow borrowers to make minimal payments at first only to face sharply higher ones later.

Look for more problems as more borrowers begin to see their loans recast, requiring larger monthly payments.

http://blogs.wsj.com/developments/2009/09/30/fannie-and-freddie-delinquencies-move-into-uncharted-territory/tab/print/