Half Of US Homeowners Will Be Underwater By 2011

Aug. 11, 2009,

The reason all this is important is that, if you're underwater, you're much more likely to default on your mortgage than if you have some equity.

You're ESPECIALLY likely to default, moreover, if you're *deeply* underwater.

In the last housing bust, house prices in Massachusetts fell about 16% (see chart). Approximately 7% of borrowers who were underwater defaulted.

7% isn't that bad, but for four reasons, DB's Karen Weaver thinks the impact will be much worse this time around:

- **The house price drop is much worse, so borrowers are more deeply underwater.** The Mass drop was 16%. We're already at 33% nationally.
- **Superior borrower quality in the Massachusetts data.** More prime, conforming mortgage loans
- **More fixed-rate loans in the Massachusetts data**.
- **Lower unemployment.** Mass unemployment peaked at 9.1%. We're now at 9.4% nationwide.

So, bottom line, more negative equity will lead to more foreclosures.

On a positive note, the level of foreclosures would have to be vastly higher than the Massachusetts data to really surprise anyone at this point. If 20% of the 25 million households that slip underwater default (3X the Massachusetts rate), that will be 6 million foreclosures. Most analysts are already expecting numbers in that range.

http://www.businessinsider.com/henry-blodget-half-of-us-homeowners-underwater-by-2011-2009-8#so-what-does-all-this-mean-18