

Shiller, Case: Prime Mortgages Are Next Time Bomb

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By: Dan Weil

Real estate gurus Robert Shiller and Karl Case say the mortgage crisis will now spread even to homeowners with strong credit scores.

The two co-founded the S&P/Case-Shiller Home Price Index. Shiller teaches at Yale and Case at Wellesley College.

"There will be continuing foreclosures, and not just subprime, it will be prime mortgages," Shiller told Bloomberg.

"This is creating a huge shadow inventory of homes that are still owned, but they're going to be on the market in the next year or so."

Already, the amount of prime mortgages overdue by at least 60 more than doubled in the third quarter from a year earlier, according to government data.

Unemployment, now at 10 percent, will lead to more defaults, the two experts say.

"Unemployment is not respecting income boundaries," Case told Bloomberg.

"It's affecting rich people, poor people and middle-income people, and they all have mortgages."

To be sure, Case isn't completely pessimistic about the housing market.

He sees a good chance that last year's rebound will continue.

Home resales have surged, while new home supply has plunged.

"That's taking some of the pressure off," Case said.

Others are more pessimistic, saying the Obama administration's mortgage relief program will make things worse.

"The choice we appear to be making is trying to modify our way out of this, which has the effect of lengthening the crisis," Kevin Katari of Watershed Asset Management, told The New York Times.

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