Merrimack Valley housingreport

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How will the "Making Homes Affordable" Program Impact the Region?

David Turcotte

On March 5, 2009, a day after the Obama Administration announced the details of their new foreclosure prevention initiative "Making Homes Affordable," the Mortgage Bankers Association (MBA) released results of their fourth quarter 2008 National Delinquency Survey, indicating that the delinquency rate of mortgage loans on one-four unit residential properties hit a record high of 7.88 percent for all loans outstanding. The delinquency rates include all loans that are at least one payment past due, but not in the foreclosure process. Yet, the percent of all loans in the foreclosure process also hit a record rate of 3.30 percent in the 4th quarter. These are the highest numbers recorded since the inception of the MBA delinquency survey in 1972. How then will the "Making Homes Affordable" program impact delinquency and mortgage rates within the Merrimack Valley?

While billed as a program that "will offer assistance to as many as 7 to 9 million homeowners," it is also not designed to help all homeowners who are at-risk of foreclosure. The initiative is broken into two parts. The "Home Affordable Refinance" program may reach 4 to 5 million homeowners who are not delinquent on their loans owned by Freddie Mac and Fannie Mae, but have lost value in their home. Accordingly, these homeowners may be able to refinance high interest fixed rate or adjustable rate mortgages despite having loan-to-value ratios above 80%, but those owing more than 5% of their current value will be unable to refinance.

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Deeds, Mortgages, and Foreclosure Recorded

February2008 and February 2009 Compared

	Haverhill		Lawrence		Lowell		Methuen	
	Feb-08	Feb-09	Feb-08	Feb-09	Feb-08	Feb-09	Feb-08	Feb-09
Deeds	84	77	51	90	111	116	54	56
Mortgages	180	167	81	90	196	199	135	168
Foreclosure Deeds	14	17	28	18	21	25	4	6

Median Home Prices

Richard P. Howe Jr

In any discussion of real estate these days, the word "underwater" emerges with disturbing frequency. The term describes a homeowner who owes more on his mortgage than his home is worth, a potentially disastrous predicament that almost eliminates the ability to sell or refinance the property. That home prices have fallen significantly is inarguable, but quantifying that decline is more difficult.

The following table tracks the median home price in four communities during the past nine years. Because the data at the registry of deeds does not identify the use of a property, vacant lots, businesses, homes and condominiums are lumped together. To narrow the set of transactions analyzed, however, I have only included those deeds in which the sales price was greater than $75,000 and less than $750,000. The top half of the table shows the median price of those deeds; the bottom half shows the number of deeds recorded.

A cursory glance at the data shows that the real estate market peaked in 2005. Since then, the median deed price in Lowell has fallen 28%, Chelmsford has fallen 14%, Dracut has fallen 17%, and Tewksbury has fallen 10%. But if current prices are put in the context of this past decade, you see that even today's values are significantly higher than those back in 2000. The median price in Lowell in 2009 was 24% higher than it was in 2000. During the same period, both Chelmsford and Dracut rose 26% and Tewksbury was up 33%. While placing today's values in this broader historical context is somewhat soothing, it offers little solace to the many homeowners who bought or refinanced when values were at their 2005 summits.

Median Sales Price

	Lowell	Chelmsford	Dracut	Tewksbury
2000	$140,000	$206,500	$167,450	$208,500
2001	$162,000	$235,900	$175,257	$230,000
2002	$187,375	$272,997	$204,900	$269,900
2003	$217,000	$295,000	$230,000	$289,900
2004	$238,600	$314,900	$245,000	$329,900
2005	$254,900	$325,000	$269,000	$345,000
2006	$247,000	$317,500	$260,000	$325,350
2007	$225,000	$304,000	$241,000	$305,000
2008	$184,900	$280,000	$225,450	$310,000

Number of Deeds Recorded

	Lowell	Chelmsford	Dracut	Tewksbury
2000	1502	670	596	580
2001	1512	684	614	645
2002	1600	704	681	562
2003	1757	633	655	587
2004	2115	834	709	615
2005	2210	791	708	533
2006	1572	505	498	408
2007	1381	534	415	416
2008	1072	433	342	329

NOTE: Includes all deeds greater than $75,000 and less than $750,000

Making Homes Affordable cont from pg.1

Overall, the Merrimack Valley has not experienced the drastic level of decline in housing values that some areas of the United States have witnessed. However, inner city areas in the region have seen significant drops in real estate value. As a result, individuals working on the front lines of foreclosure prevention efforts, while applauding the Obama administration's more aggressive efforts to tackle this problem are still concerned that many families will not be helped by this refinancing initiative. According to Juan Bonilla who directs counseling efforts for at-risk homeowners, "the refinance portion of the plan will not help too many families in areas like Lawrence that saw dramatic increases in values followed by substantial declines . . . most families who succumbed to the onslaught of predatory lending practices do not have loans with Fannie Mae or Freddie Mac."

The second part, the "Home Affordable Modification" program aims to assist 3-4 million homeowners at-risk of foreclosure by reducing mortgage payments. This program offers a clear set of guidelines for loan modifications, something that has been lacking in the industry. While Freddie Mac and Fannie Mae, as well as private lenders that receive money under the $700 billion Troubled Assets Relief Program (TARP) are required to adhere to these guidelines, there are voluntary for all other finance institutions. However, this program does offer greater incentives to servicers to modify existing loans, attempting to confront the realty that servicers often have had more financial incentives to foreclosure than make modifications. In addition, this modification program offers incentives to homeowners to stay currents on their payments by reducing mortgage principle $1,000 each year, over five years. The overall goal is to reduce the likelihood of foreclosure by making mortgage payments more affordable at a 31% debt-to-income ratio.

While it is clear that many more at-risk homeowners will be help by the "Home Affordable Modification" program than previous programs, several members of the Greater Lowell Foreclosure Prevention Taskforce have raised some concerns. Barry Thomas, a mortgage company branch manager noted that because of the voluntary nature of this program not all servicers/lenders will participate. Thomas also contends that servicers lack "the necessary personnel and procedures to deal with the expected volume of calls . . . it will be a lengthy process." This lack of capacity among lenders/servicers to handle the modification process has been a common complaint among foreclosure prevention counselors.

On the other hand, Frank Carvalho, chair of the Greater Lowell Foreclosure Prevention Taskforce shares some of these concerns, but is optimistic that many homeowners will be helped, "I look at this program as another tool to try to stabilize the residential market. My hope is that it will be successful unlike the previous programs under the Bush Administration." Even Robert Gibbs, White House Press Secretary acknowledged that this plan is not designed to help everyone. Yet, the Obama Administration has addressed many of the shortcomings of the "Hope for All" program. Nevertheless, homebuyers who have lost too much value in their home, individuals who lack sufficient income and investors will not get help under these programs.

Upcoming Events in the Merrimack Valley

Foreclosure Prevention Workshop-April 2, 2009

Governor Deval Patrick, Lowell City Manager Bernie Lynch and local nonprofit Coalition for a Better Acre are co-sponsoring this workshop for Merrimack Valley homeowners at the Doubletree Hotel on Thursday, April 2, 2009 from 2:00pm to 8:00pm. The event will bring troubled borrowers face to face with lenders for on-site loan modifications and work-out plans, in an effort to stave off foreclosures and keep families in their homes. For more information or to sponsor this event contact Suzanne Frechette, Coalition for a Better Acre at 978-452-7523 or email Suzanne.Frechette@cbacre.org

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