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Prime Loan Foreclosure Rates Rising

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Among all the publicity about the rash of sub-prime loans that are being foreclosed, prime loans – those held by homeowners with once-solid credit ratings – are increasingly facing the same fate.

Many economists expect the current 8.9% unemployment rate to rise into the double digits, and foreclosures of all types of mortgages are likely to increase. “We’re about to have a big problem,” said Morris A. Davis, a real estate expert at the University of Wisconsin. “Foreclosures were bad last year? It’s going to get worse.”

Economists refer to the current surge of foreclosures as the third wave. The first was the initial spike when speculators gave up property because of plunging real estate prices. The second wave occurred when borrowers’ low introductory interest rates expired and were reset higher.

“We’re right in the middle of this third wave, and it’s intensifying,” said Mark Zandi, chief economist at Moody’s Economy.com. “That loss of jobs and loss of overtime hours and being forced from a full-time to part-time job is resulting in defaults. They’re coast to coast.”

The borrowers sliding into foreclosure today are more likely to be modest borrowers whose loans fit their income than the consumers of exotically lenient mortgages that formerly were typical in the economic crisis. Economy.com expects that 60% of the mortgage defaults this year will be set off primarily by unemployment up 29% from last year.

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