

Unemployment remains a major cause of local foreclosures

by Eric Madkins

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The ongoing financial crisis has made it more and more difficult for homeowners. Whether it is difficulty in making mortgage payments or declining property values, everyone feels the impact. A homeowner who is current on his mortgage but resides in a one-mile radius of two to three homes that have been foreclosed upon has seen equity evaporate at enormous levels.

Some critics might grapple with what is the culprit of this financial storm. Is it the subprime bubble or exploding adjustable rate mortgages? Were people greedy, buying more house than they could afford? Were the investors who engineered the mortgage-backed securities greedy, losing sight of the market and opting for casino-style investing? Was it predatory lending?

We may never know the true answer to this complex problem. But the one factor we must not ignore is rising unemployment.

According to the U.S. Bureau of Labor Statistics, as of July 2009, the St. Louis area had an unemployment rate of 10 percent. Homeowners facing a job loss are stifled in their ability to make mortgage payments. When household income decreases by more than 50 percent, it becomes a struggle for a homeowner to make payments. When other housing expenses — food and utilities — are taken into account, the household faces the decision of whether to eat or pay utility bills. As of last July, approximately 109,548 residents were receiving unemployment benefits. Of those, how many are homeowners?

In this housing and financial crisis, the wave of subprime lending was seen as the major malefactor by many experts. As we proceed through this economic storm and look even closer, even homeowners with "prime" or "A-paper" loans (market-rate loans) are facing default or struggling to make mortgage payments. At loan origination, these homeowners were more than capable of making monthly payments, but now are facing economic hardship because of unemployment. They pursued the American Dream of homeownership only to find themselves fighting to keep their home.

According to RealtyTrac's latest data, St. Louis ranks 16th among large cities in foreclosure filings. From a geographical perspective, St. Louis is ranks third among Midwestern cities, with Chicago first and Detroit second.

Loan-modification programs allow struggling homeowners to restructure loans and increase affordability given their current economic situation. Loan modifications may assist a borrower for five years or the life of the loan, depending upon for which program the homeowner qualifies.

Still, the largest hurdle or obstacle is unemployment or loss of income. The borrower still has to demonstrate a level of affordability to qualify in several instances. In some situations, if the homeowner has no or limited income, a temporary forbearance may remedy the present hardship.

The Urban League of Metropolitan St. Louis is working with residents by offering programs for employment and housing counseling. With the unemployment rate remaining high, we must think about how homeownership is affected. The circumstance of high unemployment for which some homeowners are facing must be taken into account to preserve the dream, avert foreclosure and halt the increase of homelessness.

On Oct. 24, the National Urban League's Economic Empowerment Tour will be in St. Louis at the University of Missouri-St. Louis. The 2009 National Urban League's Economic Empowerment Tour will connect St. Louis residents with real tools and resources to help to improve their financial circumstances from landing a new job or to avoiding foreclosure. The Economic Empowerment Tour will offer a career and resource fair with employment opportunities and professional development resources and a housing rescue fair offering on-site housing counseling to homeowners who are in danger of foreclosure or in the process of foreclosure because of financial, legal or rate-adjustment issues.

Homeowners should maintain constant and consistent communication with their lender or servicer. There are several programs available to homeowners struggling to pay their mortgage, such as the Home Affordable Modification Program. Homeowners should consult their lender or servicer to see if they qualify for special programs. Also, there are community-based employment and housing resources available. And a U.S. Department of Housing and Urban Development-approved housing counseling agencies can help with counseling.

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