"Spike in Foreclosures Despite Talk of Recovery"

-*Financial Times*, December 30, 2010

As we enter 2011, this is a good time for a sober reality check. By many measures, 2010 proved to be a much better year than most would have expected. The economy grew, if a little timidly. The rate of decline in home prices slowed significantly. The unemployment rate, though still stubbornly high, also appeared to have hit a plateau. While we would have liked to have seen unemployment *fall*, at least it stopped rising. Shoppers—while still hunting for bargains—also returned to the malls. They still refuse to pay retail asking prices, of course. But at least the stores have people in them willing to open their wallets.

It may have been a far cry from the go-go years of the mid-2000s, but 2010 gave us all a little hope in the prospects for economic recovery. It's important to avoid getting carried away, however. As the headline above makes clear, the housing market is not out of the woods yet. And remember, the financial crisis and recession were directly tied to the bursting of the housing bubble and the debt bubble that made it all possible.

According to the *Financial Times*, foreclosures spiked in the third quarter of 2010 as fewer borrowers qualified for loan modifications that would have lowered their monthly payments and kept them in their homes. *New foreclosures jumped by 31% over the second quarter and 3.7% over the previous year.* And lest we forget, the rate was already exceptionally high the year before!

So, what does this actually mean for homeowners and investors? Per the *Financial Times*, "The newly foreclosed homes will add to a growing backlog of 1.2 million properties already in some stage of foreclosure… As these properties come on the market for sale, they are expected to depress home prices between 5% and 10% over the next twelve months, economists said."

A 5-10% decline in your stock portfolio can be written off as just another routine correction or perhaps just statistical noise. But a decline of that magnitude on your home is huge and will potentially push millions of additional American homeowners underwater on their mortgages…thus giving them the temptation to "strategically default" and add yet more homes to the foreclosure pool.

This would be bad enough, but the news actually gets a little worse. Of the millions of homeowners who took advantage of the government's HAMP modification program to lower their payments, fully 40% are expected to default again within five years, according to the *Financial Times*. While their payments may have changed, the economics have not—their homes are still worth less than their mortgages and their ability to pay is still hampered by a weak employment market.

I don't want to start this New Year with too much negativity. I want to reiterate that by many measures, things really are getting better, albeit slowly. But, as we sit down to make our financial goals for 2011, let us keep the precarious state of the housing market in perspective!

Sincerely,

Jeremy E. Portnoff

Jeremy E. Portnoff, CFP®, AIF®, CRPS®, CES™, CFS®, CTS™, CAS®
NAPFA Registered Advisor
Ed Slott Master Elite IRA Advisor
HS Dent Master Certified Advisor
Paladin Five-Star Advisor