

Mortgage Delinquencies Turn a Corner

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Fewer Americans are falling behind on their mortgage payments; in fact, the fewest in two years. Mortgages just one payment past due (30 days) **fell to their lowest level** since just before the recession began. Is it delays in paperwork from the so called "robo-signing" (*faulty paperwork*) foreclosure servicing scandal? No. It's actual fundamentals in the economy and the mortgage market. Go figure. "As we got toward the end of 2010 we began to see another drop in weekly claims for unemployment insurance. I think that's a key driver of the short term delinquencies," notes Jay Brinkmann, chief economist at the Mortgage Bankers Association.

But even more significant is the improved underwriting that began after the mortgage market crashed. "The loans that are in the system now on average are better quality than what was in there before," says Brinkmann, who explains that loans usually go bad in the first three years of life. We're now past the delinquency peak on loans that were underwritten during the worst, headiest phase of the housing boom in 2006 and 2007. "These new loans are less likely to go bad," Brinkmann adds.

The national delinquency rate fell 10 percent in the fourth quarter of last year to 8.22 percent, according to the Mortgage Bankers Association's latest survey. That's still high by historical standards, but it's a huge improvement. It's also good to see that the FHA delinquency rate improved slightly, from 12.62 percent to 12.26 percent (also still high).

The biggest issue going forward is not new delinquencies, but the huge pipeline of loans already in the foreclosure process. It stands at 4.63 percent, tying the survey's record high. This is due to foreclosure paperwork issues that have stalled the process, especially in the key state of Florida, where nearly one quarter of all mortgages are either delinquent or in foreclosure.

"With fewer loans exiting the foreclosure process through sales, the foreclosure inventory rate naturally increased, even as fewer foreclosure starts meant that fewer loans entered the foreclosure process in the fourth quarter," says the MBA's Michael Fratantoni.

As these foreclosures do make it through the process, and most will, they will put additional pressure on home prices, but for those of you with the long view, the drop in new delinquencies does present a glimmer of hope, perhaps a light at the end of the tunnel.