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Jingle-mail rings alarm bells for the US

By Chris Bryant and Michael Mackenzie

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As the US housing slump deepens, troubled mortgage lenders are getting used to a new, unsettling sound. Jingle-mail – the clink of housekeys being mailed in by homeowners who are opting out of mortgages – is fast becoming a buzzword in the industry.

Websites take the initiative

As in 2005, when the Miami-based website condoflip.com came to symbolise the heady appetite for speculating in real estate, the internet has been quick to spot an emerging market as house prices have dipped. **Michael Mackenzie**.

With a 79 per cent increase in foreclosures, to 2.2m in 2007, according to RealtyTrac, several websites have sprung up offering to help homeowners avoid such a fate.

Others have taken the opposite route. John Maddux, a partner in youwalkaway.com, says the website offers advice on legal and tax matters to people faced with foreclosure for a flat fee of \$995, and enrolls them in credit repair programmes.

"It is not our job to tell people to walk away from their obligations; rather we help them when they have no other choice but to follow plan B and hand back the keys," Mr Maddux said.

"When people bought houses with no money down they were essentially optioning the house. If it went up they won, and if it went down they could walk away," says Richard Geller, chief executive of mortgagereliefformula.com, a website offering home-owners advice about avoiding foreclosure.

Ed Porter, 42, from Chandler, Arizona, bought a three-bedroom home for \$390,000 in April 2006, putting no money down and paying only the interest on his mortgage every month.

In July he stopped making his monthly payments and last month he walked away from the property after it had lost \$80,000 in value.

"The realisation that [my house] wasn't going to recover in value any time soon meant at the time it seemed like the right thing to do," Mr Porter says.

Although the decision to stop paying troubled him, he is not worried about the lender pursuing him for the unpaid interest. With prices falling rapidly in nearby California, he plans to buy another property in the coming months.

Borrowers who overstretched to finance the purchase of a home have been hit hard by plunging house prices and a tightening of credit standards, and for many, foreclosure appears to be the only way out.

That prospect is a worrying one for economists. Nouriel Roubini, an analyst at RGE Monitor, says 10m to 15m households could eventually walk away from their mortgages, creating "a jingle-mail tsunami" that could trigger losses of more than \$1,000bn (€658bn, \$502bn) for financial institutions and investors.

In an attempt to avert that scenario, the Bush administration last October established HopeNow, an alliance of mortgage industry participants geared to minimising foreclosure rates.

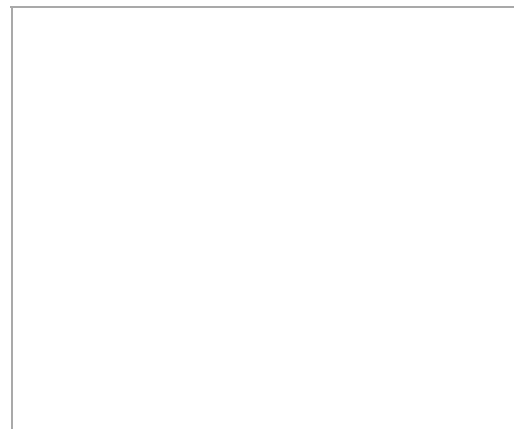
Last month six leading banks also launched Project Lifeline, a plan convened by the administration offering homeowners facing fore-closure a 30-day reprieve.

"Measures to reduce preventable foreclosures could help not only stressed borrowers but also their communities and the broader economy," Federal Reserve chairman Ben Bernanke told a meeting of community bankers on Tuesday.

But such efforts could be in vain if heavily indebted homeowners see foreclosure as their least worst option.

In the past, lending standards were much stricter, requiring a downpayment of 20 per cent of the property's value. With a higher level of equity, people could endure a sharp fall in home prices.

But increasing numbers of homeowners now have with little or no equity in their homes, so walking away is no different to a bank cutting its losses on a bad trade.



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For Stacy Suniga, 42, a director of a homeless charity in Greeley, Colorado, stopping her mortgage payments, and eventually walking away from her property, were difficult but necessary decisions.

"I had to make a moral decision as a mom. Do I give money to the mortgage company or do I help my kids go to college?"

Chris Thornburg, principal at Beacon Economics, says lenders' desperation for cash may be making the problem worse as they are putting foreclosed homes back onto the market at sharply reduced prices to encourage a sale. Foreclosure, he says, is becoming a "vicious cycle" that is likely to put increasing numbers of borrowers into negative equity.

"Banks don't want non-performing assets on their books. They want to get someone in these homes as fast as possible, so prices are going to fall even more, putting more borrowers under water," he says.

Benjamin Tal, an economist at CIBC World Markets who predicts total fore-closure losses of \$315bn, agrees that falling house prices, rather than mortgage interest rate resets, are now the primary driver of foreclosures.

After a decline of 9 per cent last year, home prices in 10 leading US cities are forecast to fall at least 18 per cent by November this year, according to futures contracts listed in Chicago based on the S&P/Case-Shiller home price index.

While the decision to foreclose is not always risk-free for homeowners, lenders are often reluctant to pursue debtors through the courts because of the cost and because borrowers are unlikely to be able to pay.

Fear of damaging one's credit rating is also fast becoming a moot point. "These [subprime borrowers] already had bad credit ratings; what difference does it make?" says Mr Thornburg.

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