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## Investors Default On Outsize Share Of Home Loans

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Investors played a big role in pumping up home prices during the housing boom. Now, they account for an outsize proportion of loan defaults, mortgage bankers and builders say.

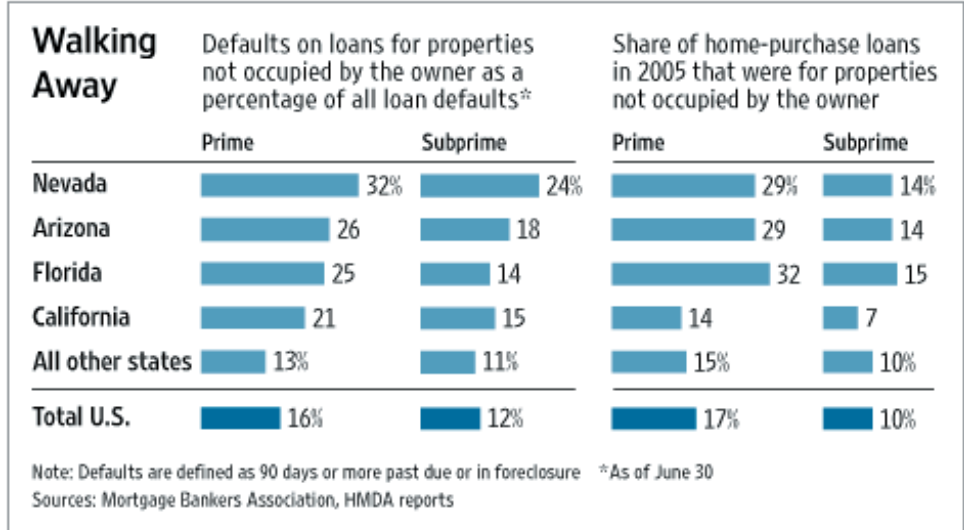
A survey by the Mortgage Bankers Association found that mortgages on properties that aren't occupied by the owner -- mostly investment homes -- account for between 21% and 32% of the defaults on prime-quality home loans in Arizona, California, Florida and Nevada, states where overdue payments are mounting fast.

Defaults were high on both prime and subprime loans, those made to borrowers with shaky credit histories.

The four states were among the favorites of speculators during the housing boom. When the market was hot, many speculators bought homes hoping to flip them for a quick profit. But now that home prices have turned lower, that strategy is backfiring.

As a result, some investors have "simply walked away from their mortgages," said Doug Duncan, chief economist of the MBA, echoing recent comments from executives of Countrywide Financial Corp., the nation's largest mortgage lender.

Investor defaults are likely to add to the spate of foreclosed homes hitting the market over the next year or two, even as much tighter lending standards cut many potential buyers out of the market.



The darkening outlook for the housing sector has prompted economists at Goldman Sachs Group to predict that home prices nationwide will fall an average of about 7% both this year and next. Alarmed by such prospects, a group of top executives from home-building and supply companies are scheduled to meet next Wednesday with Federal Reserve Chairman Ben Bernanke to argue for Fed actions to support the housing industry.

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In Nevada, Arizona and Florida, loans for properties that weren't owner-occupied accounted for nearly a third of all home mortgages issued in 2005. The figure was 14% for California and 17% for the nation as a

whole. The nationwide share for these primarily investor loans was in a range of about 5% to 7% in the 1990s, then jumped to 11% in 2002, 12% in 2003 and 15% in 2004.

In Nevada, homes that weren't occupied by the owner accounted for 32% of the prime-mortgage defaults recorded as of June 30, the MBA said. Such homes accounted for about a quarter of prime-loan defaults in Florida and Arizona and a fifth in California. For the nation as a whole, the figure was 16%.

The MBA defines defaults as loans that are 90 days or more past due or in the foreclosure process, but not those already taken over by lenders.

Sazzad Khandakar, 43 years old, an information-technology manager and father of three in Monroe Township, N.J., is among the nation's distressed home investors. In early 2005, he bought a \$410,000 condominium and a \$390,000 newly built single-family home, both in Orlando, Fla. "Everybody

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around me bought an investment home in Florida," Mr. Khandakar said. "Florida was all over the news; my friends were doing it.... I didn't want to miss out."

He planned to keep the condo as a second home and sell the detached house for a quick profit. For the condo, Mr. Khandakar made a 10% down payment, but he borrowed 100% of the cost of the house, assuming that its rapid price appreciation would soon provide him with equity. Instead, prices began falling, and he has been unable to sell the home or find a tenant. Now, Mr. Khandakar said, he is behind on both loans.

"My credit is shot for the next six or seven years," he said, and he has run through \$100,000 of retirement savings. "It will take me another five to 10 years to recover that," he added.

Many home builders say they tried to rein in sales to investors. Dom Cecere, chief financial officer of KB Home, a major national home builder based in Los Angeles, said his company used contractual clauses barring home owners from renting out their properties, but many investors bought anyway. "People do infiltrate whether you like it or not," he said.

Thanks to easy lending standards, many investors were able to get mortgages even though they put down deposits of as little as 2% to 3% on homes that weren't yet built. Some watched gleefully as a rising market boosted the value by 5% or 10% before the home was ready for occupancy. "For a while it went their way, they bought two or three homes and continued to roll the dice," said Mr. Cecere. "But that goes the other way when the prices go down."

In the end, some investors may have made money by flipping a series of houses, and lost out only on their last investment, which they couldn't sell before the market collapsed, Mr. Cecere said.

Jerry Howard, chief executive of the National Association of Home Builders, said,

"It's probably a pretty good bet" that the trade group will press the case for cutting interest rates when it and housing-industry executives meet with Mr. Bernanke on Wednesday.

On Aug. 17, in response to a credit crunch that grew out of problems in the markets for mortgage-linked securities, the Fed reduced its discount rate, the fee charged on direct Fed loans to banks, to 5.75% from 6.25%, in an effort to boost confidence amid near panic among investors over the surge in mortgage defaults and risks on other types of loans.

Markets are betting the Fed eventually will have to cut the more economically important federal-funds rate, charged on loans between banks, the benchmark for short-term borrowing costs. Lower rates tend to stimulate the economy by making it cheaper to borrow money.

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Home prices are weak in most of the country largely because of a glut of houses and condos on the market. In July, the number of homes listed for sale nationwide was enough to last 9.6 months at the current sales rate, according to the National Association of Realtors. That's well above the five- to six-month supply that's considered balanced.

Meanwhile, lenders keep setting tougher terms, particularly for investors, who are viewed as higher-risk borrowers. Guidelines sent out to mortgage brokers last week by Countrywide specified that investors must make down payments of at least 20% on

some types of loans and must document their income and assets. During the boom, many lenders provided 100% financing and often didn't insist on seeing the borrower's tax forms and pay stubs.

Underscoring the growing pessimism about housing, economists at Goldman Sachs in New York raised their forecast for the drop in U.S. home prices this year to 7% from a previous 5%. The forecast is based on the S&P/Case-Shiller national home-price index, considered the best such gauge by some housing economists. The Goldman economists expect a further 7% decline in house prices next year. In this year's second quarter, the index was down 3.2% from a year earlier.

Another house-price index, produced by the Office of Federal Housing Enterprise Oversight, or Ofheo, showed that prices in the second quarter were up 3.2% from a year earlier, the federal regulator announced yesterday. The Ofheo index, based on loans guaranteed by Fannie Mae and Freddie Mac, excludes homes financed with mortgages above the current \$417,000 limit of the two federally sponsored mortgage giants. As a result, it misses much of the market in California and other high-price areas. The Ofheo index has lagged other gauges in tracing the housing slump of the past two years.

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