

## Middlesex North Registry of Deeds

### Selected Blog Postings on Real Estate Bubble: 2004-2006

#### Monday, January 12, 2004

Last week's report that the US economy only created 1000 jobs in December (149,000 less than expected) was bad news. **I'm no economist, but something about this economic "recovery" just hasn't seemed right.** Yesterday's New York Times business section had an article ("The No-Bang, All-Whimper Recovery" by Gretchen Morgenson) that helped put things into context. Many of today's homeowners, who reached adulthood during the hyper-inflationary 1970s, learned that you should spend not just out of your paycheck, but out of your assets as well, including your house. That mentality, as much as low interest rates, drove the recently ended refinancing boom that pumped billions of dollars into the economy. But that's over and now the government is printing money (big deficits are back) to finance the war in Iraq and tax cuts that will let most of us keep a few more dollars come April 15. Hmmm, big deficits, tax cuts, a multi billion dollar bill for Iraq - it sounds like inflation is right around the corner. Hopefully, we'll record more mortgages than foreclosure deeds in 2004 . . .

#### Sunday, February 29, 2004

The registry was busier than usual on Friday. It was the last day of the month and a Friday which usually means an increase in recordings. **Lately, however, things have been quite slow, especially compared to last year. In February 2003, for instance, we recorded 12,353 documents. This February, the total was only 6,588. The reduction is due almost entirely to the collapse of the refinance market that began last fall.** Property sales remain constant. Despite a nearly 50% reduction in overall recordings from February 2003 to February 2004, the number of deeds recorded remained almost the same with 406 in 2003 and 385 in 2004.

#### Thursday, May 20, 2004

Today's newspapers carried stories about the recent plunge in the number of mortgage applications. While interest rates have risen to only about 6.2% (a very low rate if put in the context of the past several decades), that increase has caused new mortgage applications to drop by two-thirds. **Economists predict that this will cause a slight slow down in home sales and will begin to depress the value of real estate.** The rationale here is that, the lower the interest rate, the more the buyer can afford to pay for a new house.

#### Tuesday, October 12, 2004

##### Debt Consolidation Loans

**A recent Federal Reserve study estimated that at least 25% of those who refinanced during the past two years have done so to consolidate their debts.** Rising home values and low interest rates can make this an attractive option. Why pay 18% interest on your credit card debt when you can simply refinance your home mortgage and lump the balance on your credit cards in with the amount you owe on your home and pay it all off at a relatively low interest rate. **The problem with this approach is that it makes it twice as likely that you will lose your home to foreclosure.** It seems that most people who consolidate large credit card debts as part of a home refinance just run up more credit card debt which, when added to the higher monthly payment of the new mortgage, puts incredible strain on their finances. State government and consumer groups are scrutinizing questionable practices in the mortgage industry including inflated appraisals and income statements and the practice of paying a mortgage broker a commission based on the size of the loan which provides the broker with an incentive to get the homeowner to borrow a larger amount than is really needed. Here at Middlesex North, the number of Orders of Notice, our best indicator of how many foreclosures are in process, has remained stable, but we are watching closely for any rapid increases in that type of activity.

**Wednesday, October 20, 2004**

### **Mortgage Debt**

The "New York Times" ran an interesting article on Tuesday. Chairman of the Federal Reserve Board Alan Greenspan recently defended the big increase in homeowner debt over the past five years. **Greenspan acknowledged that consumer debt has risen sharply in the last five years but feels that family finances are still in reasonably good shape.** Mortgage debt and housing prices have both soared since 2001. **Some economists worry that rising interest rates will increase monthly payments for homeowners with adjustable first mortgages or equity lines. This could spell trouble if housing prices fall.** Critics feel that the Feds contributed to an artificially high housing market by keeping interest rates at record low levels. Greenspan disputes this thinking. He feels the fears are exaggerated since people do not buy and sell homes as easily as stocks. In other words, housing doesn't lend itself to being a bubble since it is harder to buy and sell. Greenspan also notes that while mortgage rates increase so have housing prices. At this time there is not a decline in housing prices. On the other hand "according to Federal Reserve data, homeowner's equity was equal to 66% of the value of their real estate during the 1970's. That share declined to an average of 56.8% in the 1990's and is now 55%".

**May 24, 2005**

### **Housing Market Slippage?**

Dodging the incessant rain showers this past weekend, I went for a walk through my Lowell neighborhood and observed that For Sale signs were nearly as common as dandelions on front lawns. My guess is that there's no great increase in the number of properties that are being placed on the market but that the homes that are for sale are staying on the market for much longer. Just last week, Alan Greenspan, chairman of the Federal Reserve, said that the red-hot housing market is unsustainable. Greenspan hesitated to call it a national bubble (that presumably could burst). Instead, he used the word "froth" to describe the numerous "local bubbles" around the country. He also said that since prices have increased so much, only those who purchase just before the inevitable downslide begins will be harmed. The economist Paul Krugman presented a bleaker picture, however, asserting that the low interest rates that are sustaining such high real estate prices are kept low by the Chinese government which last year bought \$200 billion worth of dollars and this year is on track to buy \$300 billion – that's BILLION. Krugman argues that should China take all of its money elsewhere, the ever increasing US budget deficit will cause interest rates to skyrocket with dire consequences for many new homeowners. Sounds ominous. On the other hand, if it would ever stop raining maybe home buyers will venture out and get house sales moving again

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**December 6, 2005**

### **Lowell Sun Reports on Foreclosures**

The Lowell Sun ran a front page above-the-fold story today on rising foreclosure rates in the greater Lowell area, a topic we have frequently visited on our blog (full disclosure: I was interviewed for the story and am quoted in it) . While showing that the numbers are up significantly as compared to last year (Lowell's foreclosures are up by 18%, Tewksbury's by 22%, Dracut's by 25% and Westford's by 69%), the story also explained the dilemma facing many homeowners. Taking advantage of historically low interest rates and greatly relaxed lending practices, many folks have acquired homes by financing almost the entire purchase price. Others, who bought homes when prices were lower, have exploited the increased value of their homes by repeatedly refinancing, each time drawing out more and more cash. **The problem with both of these situations is that heavily-leveraged homeowners have no equity cushion** – they owe an amount that is almost equal to the value of the home. If they get laid off or suffer a medical setback or some similar bad event, they might be able to sell the house and receive enough money in return to pay back the amount owed on the mortgage. **But what happens when the value of the property goes down? Unfortunately, the amount owed is not reduced proportionately, so the homeowner finds himself owing more than the house is worth.** If he's forced to sell, he must come up with additional money to pay of the balance of the mortgage. Realistically, most people don't have this kind of money in savings. If they did, they wouldn't have borrowed so much in the first place. Anyway, congratulations to the Sun for writing about this important issue.

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March 1, 2006

### Is the Bubble Bursting?

**Headlines in both the Globe and the Sun today paint an ominous picture for anyone in the real estate business.** (See "Mass home sales plummet" in the Globe and "House sales keep falling" in the Sun). We've compiled some statistics that corroborate this slide in real estate activity. Strong evidence of this is found by looking at the number of deeds recorded in all of Middlesex County during the months of December, January and February over the past six years. For this three month period this year, 7387 deeds were recorded county-wide, a decline of 9% and the lowest total since 2000. A look at the city of Lowell alone paints a picture not nearly as bleak. Lowell's total of deeds for this winter was 647 as compared to 702 in 2005. While that's still a decline of nearly 8%, that has more to do with the winter of 2005 being a unique period of extremely high sales activity. For example, the number of deeds recorded for this three month winter period in 2001 was 537; in 2002 it was 502; in 2003 it was 594; in 2004 it was 587; in 2005 it was 702 and in 2006 it was 647. So, while the 2006 figures were a significant decline from 2005, the 2006 figures are still high compared to all other years in this century. The larger question, of course, is whether the city of Lowell is sidestepping this decline or if it is just slower to feel the effects of it.

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May 10, 2006

### Foreclosure Explosion

A front page story in today's Globe reported that foreclosure rates increased 30% in the first three months of 2006. This caused me to scrutinize the recordings here at Middlesex North. We keep track of the number of Orders of Notice recorded (that's the first step in the foreclosure process and typically, only about one-third of Orders of Notice result in actual foreclosures). We also track the number of Foreclosure Deeds recorded (these indicate the foreclosure actually took place and the property was sold at foreclosure). Just eighteen weeks into 2006, we've already recorded 196 Orders of Notice and 40 Foreclosure Deeds. We've recorded 41 Orders of Notice since May 1 - that's just eight business days ago. If these numbers continue in the same proportion through the rest of 2006, we're on track to record 560 Orders of Notice and 116 Foreclosure Deeds. **We've been warning of this for more than a year, but from the activity of just this month, it looks like the bottom is falling out of the housing market.**

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May 19, 2006

### Letter to Editor in Globe

Back on May 10th, the Boston Globe ran a front page story on the increase in the number of foreclosures in Massachusetts during the first quarter of this year. Prompted by that article (which I blogged about that day), I did some analysis of foreclosure statistics at this registry, comparing the number of Orders of Notice recorded so far this year with the number recorded during the same period in 2005. The results of my investigation caused me to write a letter to the editor of the Globe. It was published last Sunday, May 14, 2006 in the Business Section on page E3. The numbers I cite need no further comment:

Your recent article on the 30% increase in foreclosures during the first three months of 2006 ("More are struggling to pay the mortgage", May 10, 2006, Page A1) prompted me to scrutinize the most recent recording statistics at the Middlesex North Registry of Deeds in Lowell. I was shocked to discover just how rapidly the pace of foreclosure activity has accelerated in the past two months. While the number of foreclosures commenced in January and February 2006 was 15% less than in 2005, the number of foreclosures started in March 2006 was 100% higher than in March 2005, April 2006 was 76% higher than in April 2005 and, amazingly, the number recorded in the first ten days of May was 356% higher than the same time last year (41 versus 9). **Because of the relatively benign level of activity in January and February and the soaring rate since March 1, the situation may be far worse than was portrayed.**

Richard P. Howe Jr.  
Register of Deeds  
Middlesex North District

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August 15, 2006

### **“Payment Shock”**

The lead story in the Real Estate section of Sunday's Globe was “Adjusting expectations: Rising mortgage interest rates are giving homeowners with ARMs a bad case of ‘payment shock,’ but the certainty of fixed rates comes at a cost too, leaving people with a tough call on what to do.” The article's focus was on the millions of homeowners who either purchased or refinanced with adjustable rate loans during the past few years. Now that many of those loans are reaching their three to five year “adjustment” period, many are or will see their monthly payments rise considerably. The dilemma they face (besides paying more each month) is whether to convert to the certainty of a fixed rate loan (which still carries a higher interest rate than the current adjusted rates of existing ARMs) or to ride it out with the existing adjustable rate mortgages. As the article says, even Wall Street economists can't predict where interest rates are heading, so the average homeowner is not really in a position to do much more than guess. **The article also emphasizes that as housing prices stagnate or slide, it will become more difficult if not impossible for many who purchased when prices were at their peak to refinance or sell since they may owe more than the property is now worth.**

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August 31, 2006

### **August Stats**

We crunched some numbers today comparing recordings for August of 2006 with August of 2005. For total documents, this month we recorded 7091, 26% less than the 9546 we recorded last August. The number of deeds recorded was down by 30% from 987 in 2005 to 695 in 2006. Mortgages were down similarly (by 27%) from 2782 in 2005 to 2034 in 2006. **Unfortunately, foreclosure filings (orders of notice) and foreclosure deeds were both up substantially. Foreclosure filings (what the media now is calling orders of notice) rose 116% from 25 in August 2005 to 54 this month. Foreclosure deeds rose a disturbing 283%, from 6 in August 2005 to 23 this month.** Check back tomorrow when we try to put this upward spike in foreclosure activity in historical context.

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