

Understanding the Foreclosure Crisis

For several years low interest rates and low down-payment percentages enabled home buyers to get into increasingly larger and more expensive homes. Then as home prices rose, home sellers took advantage of the "equity" in their existing homes to move up to even bigger, more expensive homes. Housing prices continued to rise, which brought talk of a housing bubble into the picture and speculation regarding what would happen when the bubble burst. And the consequences of a burst housing bubble add many challenges and obstacles to overcome in the housing market.

During the last year we've been experiencing the fallout from the bursting bubble as the high volume of homes for sale pushed prices down and homeowners found themselves unable to get out from under unaffordable mortgages.

Now the big news is the "foreclosure crisis" and what this means for the housing market.

One of the challenges in trying to completely understand the magnitude of this "crisis," is identifying and interpreting the data correctly. The most commonly cited resource for foreclosure statistics, RealtyTrac, is a marketplace for foreclosure properties. The site's data includes several types of foreclosure filings in determining their statistics, including default notices, auction sale notices and bank repossessions, making it possible for a property to be included more than once in certain statistics.

According to RealtyTrac (realtytrac.com), foreclosure filings increased 75% in 2007 from the previous year, with more than 1 percent of all U.S. households in some stage of foreclosure, up 79 percent from 2006. There were 1,285,873 properties in some stage of foreclosure during 2007. Nationally, there were 215,749 filings in December, nearly double that of December, 2006 (97%).

In 2007, Minnesota ranked 25th in country in terms of foreclosure filings with 11,557 properties having some level of foreclosure filing (default notices, auction sale notices and bank repossessions). Minnesota's foreclosure rate (.513%) was half the national average (1.033%) in 2007.

The 1,232 Minnesota filings in December 2007 represented an increase of 1.82% from the previous month and 71.83% from December 2006. For the fourth quarter there were 4,092 filings in Minnesota, an increase of 2.2% from the previous quarter and 113.35% (3834 properties with filings).

The rise in foreclosures presents challenges to both buyers and sellers. Sellers will encounter additional competition, exerting further downward pressure on home sale prices. However, while foreclosure properties may be lower priced as the seller tries to recoup some of their losses, buyers need to use extra caution when considering a purchase. These properties typically have not been well-maintained and may require costly improvements or upgrades to be habitable. A professional home inspection is essential when considering a foreclosure property. Traditional sellers are more well-advised than ever to be sure their property is in pristine condition to outshine the competition.

While the rise in foreclosure activity shows no signs of slowing down anytime soon, the government is working to assist financially troubled homeowners. In late 2007 President Bush announced a deal with the mortgage industry that would freeze some mortgage interest rates for up to five years. For details on this program, contact the Hope Now Alliance, which is a private-sector group of lenders, loan servicers and mortgage counselors.

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About the Author

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