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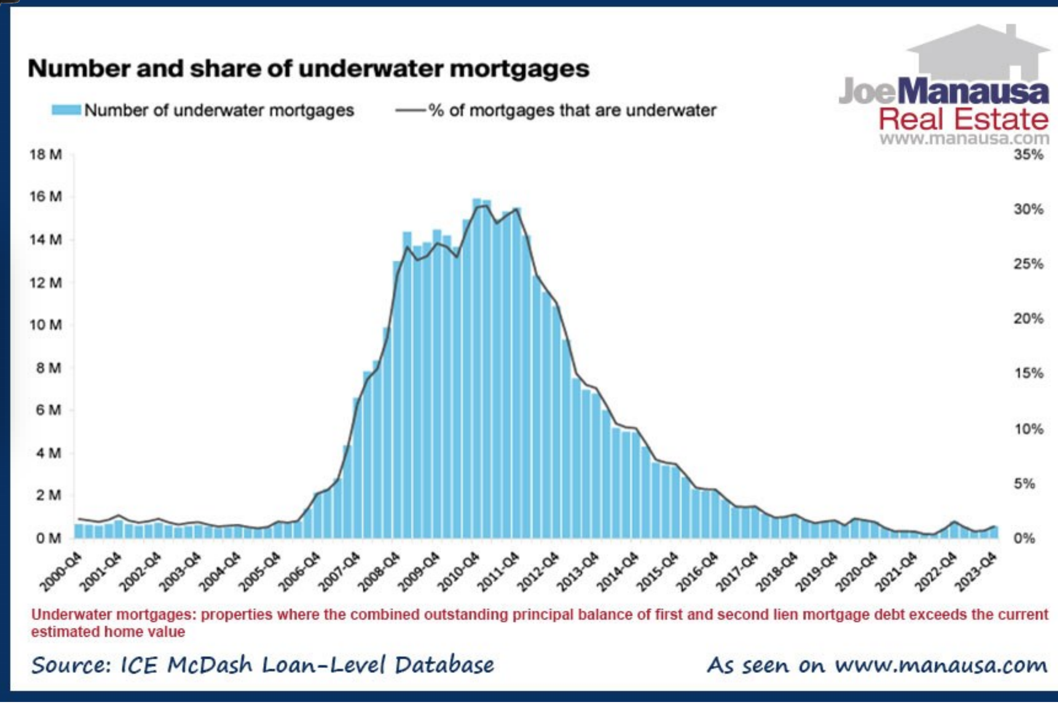
Foreclosures: No Near-Term Threat



The hype on the internet about a coming wave of foreclosures continues to gather clicks, so today we'll look at a piece of the reason that these gloom and doom reports are nothing but fiction used to gain attention.

The surge in home prices across most of the U.S. has led to very few homeowners finding themselves underwater on their mortgages. By the end of 2023, only 1.1% of mortgage holders (that's 582,000) were underwater, a decrease from 1.5% (or 807,000) the previous year.

The proportion of borrowers with less than 10% equity in their homes has remained stable at 5.3%, following a low of 2.2% at the height of home price increases in the second quarter of 2022.

Consider this, most homebuyers that using a low or no-down-payment mortgage program, such as an FHA loan with a 3.5% down payment and 3% in closing costs, start at least 7% underwater on their mortgage when they move into their new home. And considering the historical real estate appreciation rate of less than 4% per year, historically buyers must be prepared to bring money to closing if they decide to sell their home within the first three years of ownership.

Today, the slow pace at which homebuilders produce inventory has decreased the risk for buyers and lenders. For instance, in the Tallahassee real estate market, we've observed appreciation rates exceeding 10% over the past four years, offering protection to lenders and buyers.

The low inventory of homes for sale has made these crazy times, where normal negative equity is gone fast!

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