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Fewer U.S. Homes 'Underwater' as Foreclosures Mount (Update1)

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By John Gittelsohn

Dec. 13 (Bloomberg) -- The number of U.S. homes worth less than the debt owed on them dropped in the third quarter, largely because of mounting foreclosures rather than a rise in property values, according to **CoreLogic Inc**.

About 10.8 million homes, or 22.5 percent of those with mortgages, were "underwater" as of Sept. 30, the Santa Ana, California-based real estate information company said in a report today. That was down from 11 million, or 23 percent, at the end of June, the third straight quarterly decline.

Falling property values and **unemployment** near 10 percent have spurred a surge in foreclosures. The number of homes offered in foreclosure auctions averaged 110,000 a month in the third quarter compared with about 98,000 in the same period a year earlier, said **Mark Fleming**, CoreLogic's chief economist.

"There are two ways to reduce negative equity," Fleming said in a telephone interview today. "Price appreciation or disposition, which means people getting taken out of their homes. At the moment, there's more disposition."

A further decline in prices threatens to increase the number of homeowners with negative equity, Fleming said. U.S. home values will probably drop $1.7 trillion this year after rising foreclosures and the expiration of buyer tax credits that boosted demand early in the year, Zillow Inc. said Dec. 9. More than $1 trillion of the drop came in the second half, according to Zillow, a Seattle-based real estate data company.

2012 Bottom

Equity in U.S. homes fell by $649 billion in the third quarter to $16.6 trillion, the Federal Reserve **said** Dec. 9. Home prices may drop as much as 11 percent more through the first quarter of 2012 before finding a bottom, according to a Morgan Stanley report last week.

"House prices are going to fall more next spring and that will bring more negative equity," Fleming said.

Negative equity discourages homeowners from maintaining their property or their payments, "because their financial interest (the equity) has disappeared and has only a small prospect of returning soon," CoreLogic said.

About 2.4 million borrowers had less than 5 percent equity in their home from June through September, bringing the total amount of mortgaged homes underwater or near negative equity to 27.5 percent.

Nevada Leads

In Nevada, 67 percent of homes with mortgages were underwater in the third quarter, more than any state. It also has the highest rate of foreclosure filings, with one in 79 households receiving a notice of default or foreclosure in October, according to RealtyTrac Inc., an Irvine, California- based real estate information service.

Arizona had the second-highest percentage of underwater homes, at 49 percent, followed by Florida at 46 percent, Michigan at 38 percent and California at 32 percent, CoreLogic said.

States with the lowest rate of underwater homes were Oklahoma at 5.8 percent, New York at 7.1 percent, Pennsylvania at 7.3 percent, North Dakota at 7.4 percent and Montana at 7.7 percent.

The total value of negative equity in the period was $744 billion, compared with $800 billion at the end of 2009.

The report is based on data from 48 million properties with mortgages, comparing public records of outstanding debt on first- and second-liens with CoreLogic's proprietary valuation models for residential properties.

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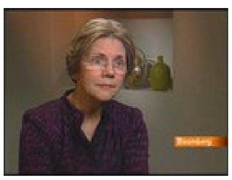

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