Home Foreclosures Increase, Said Not To Be Alarming

Editor's Note: Foreclosures of home mortgages have climbed sharply since 1959—a period of prosperity—but government and housing industry officials see no cause for undue alarm. The reasons why are explained in the following exclusive dispatch.

By EDWARD COWAN

Washington—(UPI)—An aircraft factory's contract for bombers is not renewed and 800 men are laid off.

A child is afflicted by a crippling disease and must have years of costly medical attention.

A marriage goes on the rocks and the family income of two wage earners is split.

Each case is different. Yet each shares somthing in common: An unforeseen turn of the wheel of fate that cuts deeply into a home owner's income. He falls behind in his mortgage payments. One month, two months, three months, six months. Until even the most sympathetic lender runs out of patience. The lender's money is tied up. He has his own obligations to meet, so he forecloses.

Mortgages Foreclosed

In 1961, about 200 mortgages on non-farm properties were foreclosed every day. The total of 73,074 for the year set the highest mark since 75,556 in 1940, tail end of the Great Depression.

Foreclosure means simply that the lender has exercised his legal rights and takes over a property for non-payment on the loan.

The borrower probably loses whatever equity he acquired through his down payment and monthly payments. With the liberal terms available on a government-backed loan, many home buyers have little or no equity in their houses.

A down payment of only $450 is needed to buy a $15,000 house with a mortgage insured by the Federal Housing Administration. No down payment is necessary for an ex-serviceman with a loan guaranteed by the Veterans Administration. Low monthly payments consist mostly of interest, so that reduction of principal is slight. Hence, equity builds up slowly.

These liberal terms explain the modern-day "walkaways" —home owners who have practically nothing invested in their house. Behind in their payments, they drop the keys in the mail box or on the back steps, hire a moving van and pull out.

They don't bother to sell and they don't bother to tell the lender they are abandoning the house. They may not even cut off milk and newspaper deliveries.

Nobody knows exactly how many "walkaways" there were last year. But by all accounts there were more than ever before, especially in Florida and Texas, where there is an oversupply of new houses.

"Walkaways" are only one aspect of foreclosures but they are a symptom. The basic fact is that the number of foreclosures has risen every year since it dipped to a post-war low of 18,135 in 1952.

The increase was gradual until the late 1950's when it began to speed up. Last year it leaped by 22,000. A further increase in 1962, perhaps a smaller one than in 1961, is indicated by figures for the first few months of the year.

Opinion among government officials who watch these figures is that the problem has not become very serious. Specific causes of the recent increases—as distinguished from general economic distress—are one reason for the lack of worry.

Another is that in relation to home ownership, foreclosures are few. "They're up but still pretty darn low in relation to what we saw in the 1930's," Nat Rogg, economics director of the National Association of Home Builders, told UPI.

Millions Fewer

In 1932-33, when there were millions fewer homes than now, foreclosures averaged 250,000 a year.

What percentage that was of all homes has not been computed by the government. But it was staggering in relation to the 1961 rate of 36 homes foreclosed in every 10,000. In 1960, however, the rate was only 27 per 10,000.

Housing experts are gradually hopeful that the 1959-61 climb is tapering off. The latest available report from the mortgage bankers association finds "no substantial change" in April, May and June from the preceding three months.

Officials are aware, however, that the economy may be sliding into a recession. A business slump could wipe out the jobs of some of the 16 million home owners with mortgages and perhaps force some of them to surrender their homes.

Limited Cause

So far, housing and financial experts say, general economic distress has been only a limited cause of the rise in home foreclosures. Allan F. Thornton, the FHA's research director, estimates that only 25 to 30 per cent of FHA foreclosures have stemmed directly from loss of income. He believes that shoddy family budgeting, marital difficulties, job and military reassignment changes and low, low down payments have figured heavily in the upsurge.

Cutting across all of these is a leveling off in prices in the past few years. The housing shortage days of the immediate post-war years brought with them substantial—sometimes spectacular—increases in home prices. Inflation made it possible for the home owner in distress to sell his house, pay off his debt, get back his equity and have something left over.

"No longer will inflation and need provide a false protection for the home buyers," FHA Commissioner Neal J. Hardy said.

Held by FHA, VA

Foreclosed property held by both the FHA and VA are bunched in certain areas.

Florida and Texas bulk large on the lists of both agencies. Speculative overbuilding, military shifts, cutbacks in oil production—all have contributed to the surge of foreclosures in those two states.

Atlanta and Savannah, Ga., Wichita, Kan., and Portsmouth, Ohio, are other areas where foreclosures are tied to cuts in federal spendings.

In Detroit, where automation has made it possible for fewer workers to turn out more automobiles, FHA held 1,447 properties at mid-year and VA has a whopping 3,179, more than in any other VA district.

Government officials said it is this geographical bunching of foreclosures and the sometimes special causes of local economic distress that prove there is no general foreclosure problem.

Shift in Market

Contributing to the list of delinquent home owners has been a shift to a buyer's market plus a surplus of home loan funds. Salesmen sometimes have "sold" houses to buyers who could not afford them. Lenders, eager to put idle funds to work, also have made some questionable loans.

Both FHA and VA have ordered their field offices and the commercial firms which make the credit investigations to be more cautious.

Neither agency, however, apologizes for its liberal terms. And neither is considering tightening them.

"The great percentage of people are financially responsible and will strive to meet their obligations," said John M. Dervan, director of VA's loan guaranty service.

Pointing out that only 91,000 or 1.6 per cent, of the 5.8 million loans backed by VA since 1944 have gone to foreclosure, Dervan argued the program should be continued for the sake of the 98 buyers in every 100 who pay on their mortgages.

Benefits Great

Paul E. Ferrero, deputy commissioner of FHA, contends that "the benefits of expansion of home ownership are great and far outweigh the cost of foreclosures."

Evidence of a possible leveling off in the foreclosure barometer is offered by both agencies and is supported by the mortgage bankers. FHA took title to fewer properties in May than in April. Defaults at the end of June approximated 40,000 as against 43,000 at the end of March.

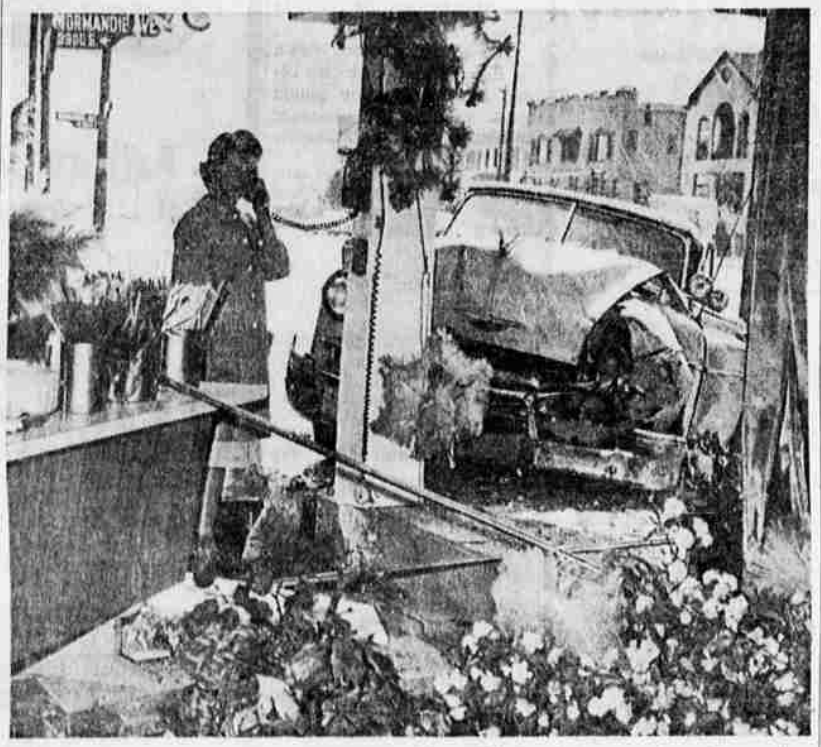
VA's defaults since February have been running below the year-ago level. They dipped from a high of 59,000 in February to 55,000 as of June 30.

Encouraging

Officials say that all of this is encouraging. It may indicate that the rapid climb of foreclosures of the past two years was chiefly an adjustment to new conditions: tapering off of inflation, lower down payments and basic shifts in military spending.

The abnormally low foreclosure levels of the early and middle 1950's probaby will not return. Lenders and home builders will have to learn to do business in a buyer's market, at least for a while, without making imprudent sales and loans. The buyer who figured inflation would bail him out must think again.

These are the happier possibilities. They look like probabilities. But they are not certainties.



REPEAT BUSINESS—Mrs. Jo Pearson seems undisturbed by the car which crashed through the plate glass window of the flower shop she operates in Los Angeles. She said it is nothing new since this was the sixth car in 10 years to come through the glass. (UPI)

Priest Attempts To Aid Poverty Stricken Indians

By IRWIN TALBOT
United Press International

Madison, Wis. — (UPI) — Father Daniel McLellen calls it "guerrilla diplomacy" but it really boils down to direct aid for poverty-stricken Latin Americans.

Whatever it's called, Father McClellen sees it as a means of combatting communists.

Father McClellen has been up against them in Peru. He said they are tough, hardcore communists, highly trained in Prague. The United States has given Father McClellen $310,000 to take them on.

He will use the money to expand a school in Lima, Peru. Latin Americans will be trained there in setting up credit unions in Central and South America.

"The communists realize this is the kind of program they have to wipe out," the priest said. "They need misery to live and oppose anything that might end it."

South Americans are "suspicious of everything until they see it working," Father McClellen said. Credit unions have worked there, he said, and he has been flooded with requests for information.

Money To Work

His aim is to "get small sums of money working over a whole country." He already has set up 275 credit unions in Peru, where "98 per cent of the people can't get credit" by any other means. A credit union establishes credit for its members, persons who have a common interest or live in the same community. The members pool their money and become eligible for small, low interest loans. Members also receive interest, as credit unions are non-profit.

Government - to - government aid isn't the answer, Father McClellen said. Not enough trickles down to those who need it. He said South Americans want face-to-face help now, no' plans.

Father McClellen, who is the director for all Peruvian credit unions, attended the Credit Union National association (C U N A) director's meeting here recently.

At that time, the U. S. Government announced a grant of $310,000 to CUNA for the next two years.

Father McClellan began the first credit union seven years ago in Punto, an Indian community about 13,000 feet above sea level. "The people there live in poverty," he said. "The weather is cold and the land over-grazed.

Don't Know Difference

"The Indians don't know the differences between democracy and communism, they just know they're hungry and it's hard to survive."

"If we don't make this foreign aid work, they are going to say, 'there's nothing else to do but go communist,' " he said.

To show how effective direct aid can be, Father McClellen told of a young Indian who became a big success using credit union loans. The 18-year-old borrowed a small amount of money for onion seed. He went to Lima and bought better seed for less than farmers in his area. After selling the seed, the boy paid off his loan, then borrowed more.