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Homeowners stretched perilously

More than a quarter in Boston spend at least half their pay on housing. Blacks are hit hard.
By Sara Miller Llana | Staff writer of *The Christian Science Monitor*

BOSTON – If the nation's real estate boom collapses, its first victims may well be low-income minorities and immigrants in a big US city like Boston.

That is the picture emerging here as foreclosures rise and the housing prices falter. More than one-quarter of Boston's mortgage-holders appear to be stretched thin financially, spending at least half their income on housing, according to an analysis of census figures. That's more than twice the national average and the highest of any major city except Miami.

The trend is especially worrisome, the analysis shows, because these vulnerable homeowners tend to be minorities and immigrants who, experts say, often hold the riskiest mortgage loans.

The threat has implications not only for Boston, whose population would have shrunk without an influx of immigrants, but for the US. A real estate slump could erode America's rate of homeownership, which has reached record levels in the past decade.

"Getting homeownership up is a good thing," says Andrew Sum, director at the Center for Labor Market Studies at Northeastern University in Boston. Many minorities and foreign-born residents became homeowners during this real estate boom. But boosting home ownership is not worth it for those at "risk of losing financial control," he adds.

Typically, homeowners should spend no more than 30 percent of their income on housing, financial planners say. Carmen, who used this pseudonym because she's embarrassed by her plight, is one of many Boston homeowners who are stretched much further.

A native of Puerto Rico, she and her husband, from El Salvador, bought a \$342,000 home in the city's East Boston neighborhood in 2002. They could manage the mortgage. But then unexpected taxes in their contract pushed up their monthly payments - twice in a single year. Last June, her husband lost his job as a chef.

"It all came at once," Carmen recalls. "We were crying so much. We almost lost our home."

Then she took on more hours as a nursing assistant, and her husband found work as a marble-cutter. Now, they limit their cellphone calls. They rarely eat out and have cut out the weekend trips they used to take. Still, mortgage payments soak up almost all their income.

"I am telling all the Spanish-speaking people, don't do it," says Carmen of homeownership. "If I lose my house, I will get out of here. It's not worth it."

Other Bostonians are under similar pressures. Fully 27.1 percent of the city's homeowners with a mortgage spent at least half their gross income on housing in 2004, according to the latest census figures available. Those costs, which include utilities and insurance as well as mortgage payments, were more than double the national rate of 11.7 percent and topped New York (25.9 percent), Los Angeles (26.5), San Francisco (20.4), and Chicago (20.3). Of the 25 biggest cities, only Miami had a higher rate (35.8 percent).

In Boston, a shift in market forces is now putting many of these vulnerable homeowners into a double bind. Rising interest rates are pushing up the costs for those who have adjustable mortgages. At the same time, these homeowners are finding it harder to sell.

Massachusetts home prices fall

The number of homes sold in Massachusetts dropped a whopping 21 percent in January compared with a year ago, the largest year-to-year decrease in monthly home sales in a decade. As a result, home values have begun to soften. Statewide, they actually fell slightly in January compared with a year ago.

Such pressures are forcing a rising number of homeowners to erase their debts by forfeiting their homes. Foreclosure filings in the county that includes Boston nearly doubled in January from a year ago, ForeclosuresMass. says.

Homeowners "call us and are heartbroken," says Robert Pulster, executive director of the Ecumenical Social Action Committee, which works with Boston residents on the brink of losing their homes. "They thought it was their dream."

More trouble lies ahead, some experts warn.

"I would suspect that as home prices soften, you are probably going to see a ramp-up in defaults, delinquencies, and foreclosures," says Nicolas Retsinas of the Joint Center for Housing Studies at Harvard University. "It is not that they were not stretched before, but if you couldn't make the mortgage payments, you would sell. If the market is softer, it is not as easy to do this."

The pressure appears greatest for minorities and immigrants, says Dr. Sum, who conducted the census analysis. Statewide, 33 percent of blacks with mortgages were paying half or more of their gross income toward monthly housing costs, and 29 percent of Hispanics were, more than double the average, he says. And 22 percent of foreign-born fell into the category. Such factors could not be broken down for Boston because the census data are limited.

Mortgages are also riskier for many today. When 30-year, fixed-rate mortgages were standard, a rise in interest rates would have little effect on current homeowners. But in an era of adjustable-rate loans, it can exact a toll.

The toll is especially difficult for minorities, housing experts say, because they are most likely to hold higher-cost subprime loans.

"This is the first decade that we have had this culture of pricing risk in home lending," says Susan Wachter, professor of real estate at the University of Pennsylvania. "What happens if someone loses a job?... If you are already spending 50 percent of your income toward a mortgage, there is no cushion."

Slump in real estate could cut growth

A rise in home sales and foreclosures among immigrants, while worrisome nationwide, would be especially troublesome for Massachusetts. Without immigration, the state's population and labor pool would have shrunk since 2000, according to a report released last year by the Massachusetts Institute for a New Commonwealth, a nonpartisan think tank, and the Center for Labor Market Studies.

The number of homeowners with mortgage trouble is rising, says Saul Perlera, who owns a real estate firm in East Boston. Some were scammed by lenders, he says. Others were too quick to buy.

"A lot of them just do not listen. They want a house," he says. "I try to advise them: You can get a house, but you might not be able to stay in it."