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1.5 Million Homes Entered Foreclosure

WASHINGTON - A rising tide of late mortgage payments and home foreclosures poses considerable dangers to the national economy, Federal Reserve Chairman Ben Bernanke warned anew Monday as he urged Congress to take additional steps to alleviate the problems.

"High rates of delinquency and foreclosure can have substantial spillover effects on the housing market, the financial markets and the broader economy," Bernanke said in a dinner speech to Columbia Business School in New York. "Therefore, doing what we can to avoid preventable foreclosures is not just in the interest of lenders and borrowers. It's in everybody's interest," he said.

Some 1.5 million U.S. homes entered into the foreclosure process last year, up 53 percent from 2006, Bernanke said. The rate of new foreclosures looks likely to be even higher this year, he said.

To provide more relief, Bernanke again called on Congress to give the Federal Housing Administration, which insures mortgages, more flexibility to help distressed borrowers at risk of losing their homes. He also again urged lawmakers to move ahead on legislation revamping Fannie Mae and Freddie Mac, which finance mortgages. And, he called on the two mortgage giants to quickly raise new capital.

House leaders plan action on those and other housing measures this week.

"Conditions in mortgage markets remain quite difficult," the Fed chief said. A copy of the speech was made available in Washington.

The reasons behind surging late payments and foreclosures can vary and that needs to be taken into account when developing solutions, Bernanke said. For instance, parts of New England, states in the Great Lakes, including Minnesota, Michigan and Wisconsin, show increased mortgage delinquencies and "notable increases" in unemployment rates, he said.

California, Florida and parts of Colorado, on the other hand, saw delinquencies rise during a period when unemployment generally decreased but the value of homes declined, he said.

Mortgage companies are used to dealing with delinquencies related to life events, such as job loss or an illness, with the most common approaches being a temporary repayment plan or the folding of missed payments into the principal balance, Bernanke said.

"A widespread decline in home prices, by contrast, is a relatively novel phenomenon, and lenders and servicers will have to develop new and flexible strategies to deal with this issue," Bernanke said.

The current housing crises has clobbered some borrowers home prices dropped. That left them with mortgages that are bigger than the value of their home. When that's the primary problem, Bernanke said the best solution may be reducing the amount that the borrower owes on the loan or some other permanent modification to the loan.

Rising foreclosures add to the glut of unsold homes and that put more downward pressure on prices, aggravating the housing slump, he said. More rapid declines in house prices could have an "adverse impact" on the broader economy and the stability of the financial system, he said.

In his remarks, Bernanke did not talk about the interest rate policy or the state of the economy.

To help bolster the economy, the Federal Reserve last Wednesday cut a key interest rate by one-quarter percentage point to 2 percent and strongly hinted that it may take a breather in its rate-cutting campaign that started last September.

The Fed hopes that its powerful series of rate cuts — its most aggressive in decades — along with the government's $168 billion stimulus package — including tax rebates that started flowing to bank accounts last week — will be sufficient to lift the country out of its slump in the second half of this year.

The mortgage meltdown started with problems with subprime mortgages — those made to people with tarnished credit. However, they have spread to more creditworthy borrowers.

The trio of crises — housing, credit and financial — have threatened to plunge the country into its first recession since 2001. The situation has roiled Wall Street, rattled consumers and has galvanized politicians in the White House, in Congress and on the campaign trail to come up with proposals to provide relief.

"The Realtor's mantra is `location, location, location' ... local variation in housing and mortgage markets is considerable," Bernanke said. "This variation is useful for understanding the sources of the increase in mortgage delinquencies and foreclosures, and it should be taken into account as loan servicing companies and policymakers consider how best to avoid preventable foreclosures," he said.