New Foreclosures Hit New High In Q4; Delinquencies Soar

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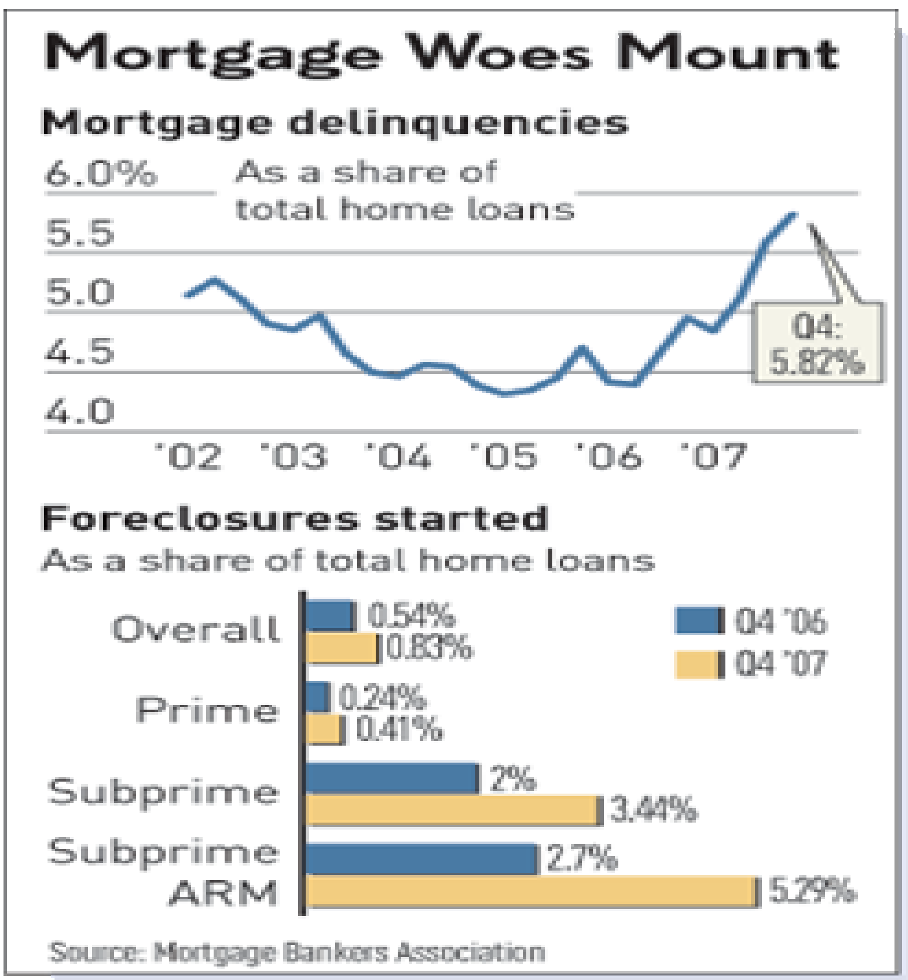
Home foreclosures rose to a record last quarter as borrowers abandoned their homes, capping a slew of bad credit news out Thursday that sent investors running for the exits.

There was one possible bright spot. Pending home sales -- contracts signed, not closed -- held steady in January, the National Association of Realtors said. That suggests the housing market could be stabilizing.

"There is some encouraging evidence that the housing market is starting to find a bottom" in terms of sales, said Richard DeKaser, chief economist at National City Corp. (NYSE:NCC)



The ratio of homes entering foreclosure to all U.S. mortgages rose to 0.83% in the fourth quarter, above the prior high of 0.78% set in the third quarter, the Mortgage Bankers Association said.

The share of delinquent mortgages rose to 5.82%, the most since 1985. Payments at least 30 days overdue are deemed delinquent.

Falling prices have left an increasing number of recent home buyers owing more than their properties are worth. The specter of adjustable-loan rate resets also gives homeowners less reason to stay.

"As equity is declining there's an incentive to walk away," said Jay Brinkmann, president of research and economics at the Mortgage Bankers Association. "Many of these loans were entering foreclosure well before their interest rates reset."

The percentage of subprime adjustable-rate mortgages that entered foreclosure jumped to a record 5.29% in the fourth quarter, up from the third quarter's record of 4.72%, the MBA said. Fully 20% of subprime ARMs are delinquent.

The share of equity that Americans have in their homes fell to 47.9% in the fourth quarter, the Federal Reserve said Thursday. Along with revised data for the prior two quarters, it's the first time that home debt has exceeded equity since 1945.

Meanwhile, missed margin calls by jumbo mortgage lender Thornburg and a bond fund owned by the Carlyle Group triggered a huge sell-off among lenders. It also pushed the yield spread between highly rated agency mortgage debt and Treasuries to the highest in decades.

"There's clearly some risk to the economy," said Mark Vitner, an economist at Wachovia. (NYSE:WB) But all this bad news could herald a bottom, he added.

Stocks tumbled on credit woes. The Dow lost 1.8%, the S&P 500 2.2% and the Nasdaq 2.3%.

The Fed is expected to cut interest rates by at least 50 basis points to 2.5% at or before its March 18 meeting to try to ease the credit crunch and bolster the economy.

Tighter lending standards are the "greatest threat to the economy," Vitner said.

Lenders, burned badly by huge losses from the subprime mortgage crisis, have curbed lending.

The government on Thursday temporarily raised the size of loans that government-sponsored mortgage finance giants Freddie Mac (NYSE:FRE) FRE and Fannie Mae (NYSE:FNM) FNM could buy to $729,750 from $417,000. It was part of last month's economic stimulus package. The idea is to boost funding for home loans in pricey markets such as California.

But Citigroup (NYSE:C) late Thursday said it would halve new mortgage lending and tighten standards, a day after it said it would shut down its subprime lending unit.

Thornburg Mortgage TMA said it had received a notice of default from JPMorgan (NYSE:JPM PRH) (NYSE:JPM PRX) (NYSE:JPM PRK) (NYSE:JPM PRJ) (NYSE:JPT) (NYSE:JPM) JPM after failing to meet a $28 million margin call, which forces borrowers to pay back loans or post more collateral.

Thornburg said Monday it had not met additional margin calls on $270 million worth of Alt-A mortgage securities.

The lender's woes spurred talk that it was nearly bankrupt.

"Thornburg is at high risk of failure," Jason Arnold, an analyst at RBC (NYSE:RY) Capital Markets, said in a note Thursday.

Thornburg's stock dived 51% to 1.65. Freddie and Fannie shares fell to their worst levels in over a decade while many other lenders sold off hard.

Swiss banking giant UBS (NYSE:UBS) UBS may have sold its $24 billion portfolio of Alt-A mortgage loans at a "fire sale" price, analysts at JPMorgan said in a note.

They estimated UBS' mortgage-related losses would rise by $3.4 billion to about $18.1 billion.

UBS shares fell 4%.

Carlyle Capital said it failed to meet a portion of banks' margin calls on mortgage securities. It mostly bought Fannie- and Freddie-backed debt, usually seen as one of the safest investments outside of Treasuries.

Fed chief **Ben Bernanke** warned earlier this week that home loan foreclosures and delinquencies would likely rise "for a while longer."

He called for a "vigorous" response and urged lenders to help troubled borrowers by lowering the amount of their loans.

A tentative plan from the Office of Thrift Supervision calls on lenders to cut loan principal in return for "negative equity" certificates to be redeemed when the house is sold.

Democratic lawmakers want to let bankruptcy judges reduce mortgage principal.

The mortgage industry strongly opposes any such "cram-downs."