54,000 Chicagoans caught in perfect storm

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More than 54,000 homeowners in the Chicago area were 60 days behind on their mortgage payments and in serious danger of going into default as of Dec. 31, 2006. That's 14.5 percent of an estimated 374,000 subprime loans in the greater Chicago standard metropolitan area, said Bob Visini, vice president-marketing, for LoanPerformance, a California-based subsidiary of First American Real Estate Solutions.

In Chicago the numbers of these early warning defaults increased 56 percent between year-end 2005 and year-end 2006, a higher percentage increase than posted nationwide, Visini said.

LoanPerformance maintains the largest database of mortgage-performance information in the country, tracking 80 percent of all active mortgages. The data is at least two months behind, so more early warning defaults are posting even as I type.

"[The subprime market] is the perfect storm where you have lenders looking for business [converging with] borrowers stretching to afford a home," Visini said.

Subprime loans in the United States amount to $1.3 trillion, about 14 percent of all U.S. outstanding debt, Visini said. Compare that with the percentage volume of subprime debt in 1996 -- nada, zero, nothing much to speak of at all, Visini said.

The perfect storm gained momentum with the push for homeownership during the 1990s, Visini said. But its genesis was a 1994 court ruling that gave further tax advantages to an investment called a Real Estate Mortgage Investment Conduit (REMIC). A REMIC is a mortgage securities vehicle authorized by the Tax Reform Act of 1986. Warrants tied to these pools of deals say that "if the loans default in a certain period of time, [lenders] have to buy them back. Now, Wall Street is demanding that the lenders *take* them back," Visini said.

"If you don't have the money, someone has to come and break your legs," Visini said. "It really is a perfect storm."

An Internet site called the Mortgage Lender Implode-o-Meter put the count of mortgage lenders that have croaked since December at 33.

"What you are seeing now is a lot of higher risk loans with very little money invested," said Bill McNamee, president of the Illinois Association of Mortgage Brokers. "Fortunately, the real estate market is starting to pick up again [in the Chicago area], and investors will be able to pick up those foreclosed properties."

All these homeowners with early warning loans are creating a crowded hunting ground for our friends the predatory lenders.

So it won't be a second too soon when the Illinois Department of Professional Regulation releases new guidelines to implement HB4050 that industry players have been hammering out behind the scenes. It's expected the new procedures designed to thwart predatory lenders will be applied Cook County-wide. The revamp is expected any day.

And U.S, Rep. Luis Gutierrez (D-Ill.) is holding meetings to polish his national bill, "The Mortgage Broker Licensing and Predatory Loan Disclosure At of 2007," that is expected to require much greater transparency among brokers as well as prohibit "flipping" of loans.

But meanwhile, what's a subprime mortgage holder to do who's falling behind on payments?

"The bank does not want to own these homes," Visini said. "If you are in a subprime loan and you are late, talk to the servicer. They might be able to rewrite the loans."

In other words, he said, don't leave the bills in the mailbox.