

15% of Low End Homes Remain Underwater

By: Jann Swanson | Wed, Jun 17 2015, 1:50 PM

More than a quarter of a million homeowners emerged from underwater the first quarter of 2015, an increase of \$694 billion in positive equity in homes during the quarter. CoreLogic said the total number of mortgaged residential properties with equity increased by 254,000 to approximately 44.9 million units or 90 percent of all mortgaged properties.

The company estimates that about **5.1 million homeowners** remain in a negative equity position, 10.2 percent of homes with a mortgage, compared to 5.4 million or 10.8 percent in the fourth quarter of 2014, a quarter-over-quarter decrease of 4.7 percent. Since the first quarter of 2014 1.2 million homes have gained positive equity, an increase of 19.4 percent.

Having negative equity means a borrower owes more on a home mortgage than the home is worth because of a decline in home value, an increase in mortgage debt, or both. These borrowers are often referred to as "upside down" or "underwater."

The national aggregate value of negative equity was \$337.4 billion at the end of Q1 2015, falling approximately \$11.7 billion from \$349.1 billion in Q4 2014. On a year-over-year basis, the value of negative equity **declined overall** from \$388 billion in Q1 2014, representing a decrease of 13 percent in 12 months.

As other negative equity studies (Zillow, Black Knight Financial Services) have pointed out, there is a **much higher incidence of negative equity at the lower end of the market**. CoreLogic says that 94 percent of homes valued over \$200,000 have equity compared to only 85 percent of those under \$200k.

In addition to the homes with negative equity there are an estimated **9.7 million or 19.4 percent of mortgaged homes** that are what CoreLogic calls "under-equited," or having less than 20 percent equity, and 1.3 million of those have near-negative equity, less than 5 percent. These homeowners may have a more difficult time refinancing existing homes or selling and buying anew because of the lack of a downpayment. On the lower end of this under-equited group there is a risk of moving into negative territory if home prices fall.

"The CoreLogic Home Price Index for the U.S. was up 2.5 percent during the first quarter of 2015, which has improved the equity position of homeowners," said Frank Nothaft, chief economist for CoreLogic. "About **90 percent of homeowners** now have housing equity and, as a result, have experienced an increase in wealth, which can spur additional consumption and investment expenditures. The remaining 10 percent of owners with negative equity will find their home value rising while they continue to pay down principal on their amortizing mortgage loan."

"Many homeowners are emerging from the negative equity trap, which **bodes well** for a continued recovery in the housing market," said Anand Nallathambi, president and CEO of CoreLogic. "With the economy improving and homeowners building equity, albeit slowly, the potential exists for an increase in housing stock available for sale, which would ease the current imbalance in supply and demand. There are still about 5 million homeowners who are underwater and we estimate that a further 5 percent appreciation in home values across the U.S. would reduce the number of owners with negative equity by about one million."

The highest percentage of negative equity is in **Nevada** at 23.1 percent followed by Florida (21.2 percent), Illinois (16.8 percent), Arizona (16.8 percent) and Rhode Island (15.7 percent). These five states together accounted for 31.4 percent of negative equity in the U.S.

Of the total \$337 billion in negative equity, **first liens** without home equity loans accounted for over half at \$181 billion, or 53 percent, in aggregate negative equity, while first liens with home equity loans accounted for \$157 billion, or 47 percent. The 3.1 million underwater borrowers with only one lien had an average mortgage balance of \$229,000 and were underwater by \$58,000. The 2 million with both first and second liens owned a combined balance of \$295,000 and had \$78,000 in negative equity.

View this Article: <https://www.mortgagenewsdaily.com/news/06162015-corelogic-negative-equity>