

SPECIAL ALERT
Underwater and Unemployed
By Dr. Larry Bates

The number of U.S. homeowners who owe more on their homes than they are worth is just under 18 million, or 23% of homeowners. This fact will affect the overall real estate market for years, as these "underwater" borrowers are at a greater risk of foreclosure which in turn drives down real estate values in the area of the foreclosures.

Fannie Mae and Freddie Mac, the federal government agencies credited with causing the housing bubble and subsequent bust are due to be phased out, with more restrictive lending rules in the interim.

According to the American Institute for Economic Research, "The housing bust has turned the American dream into a nightmare for millions. The housing sector is now a barrier to economic recovery and the legacy of high mortgage debt has created headwinds that will buffet Americans and the economy for a long time."¹

None of us really knows how and when all of this housing mess will play out because it has no historical precedent. What we do know is that between 2007 and 2009, in just two years, approximately 25% of U.S. household net worth was wiped out by the real estate debacle and falling stock prices. The inability to sell a home without taking a financial "bath" will restrict the mobility of many workers. We can see by the following chart the breakdown by state of underwater and unemployed.

We recommend against residential real estate purchases at this time unless you are the beneficiary of "fire sale" prices.

¹ "Underwater" ó Kerry A. Lynch, Senior Fellow ó AIER Research Reports, Vol. LXXVII, No. 19 ó November 1, 2010, p. 1.

Underwater and Unemployed

State	% of Mortgages With Negative Equity	Unemployment Rate	State	% of Mortgages With Negative Equity	Unemployment Rate
Nevada	69.9	14.4	New Mexico	12.5	8.2
Arizona	51.2	9.7	Arkansas	12.3	7.7
Florida	47.7	11.9	Connecticut	12.3	9.1
Michigan	38.6	13.0	Texas	11.8	8.1
California	34.1	12.4	Indiana	11.1	10.1
Georgia	28.7	10.0	Alaska	10.7	7.8
Idaho	23.7	9.0	Kansas	10.6	6.6
Virginia	23.6	6.8	North Carolina	10.4	9.6
Maryland	22.8	7.5	Hawaii	9.8	6.3
Utah	21.1	7.5	Nebraska	9.4	4.6
Rhode Island	20.9	11.5	Alabama	9.1	8.9
Illinois	20.5	9.9	Iowa`	9.1	6.8
Colorado	20.2	8.2	Kentucky	8.8	10.1
Ohio	20.0	10.0	North Dakota	8.0	3.7
New Hampshire	19.1	5.5	Pennsylvania	7.4	9.0
Minnesota	16.7	7.0	Montana	7.3	7.4
Oregon	16.3	10.6	New York	7.0	8.3
D.C.	16.0	9.8	Oklahoma	5.9	6.9
New Jersey	15.8	9.4	Louisiana	na	7.8
Washington	15.8	9.0	Maine	na	7.7
Massachusetts	15.6	8.4	Mississippi	na	9.8
Missouri	15.6	9.3	South Dakota	na	4.4
Wisconsin	14.4	7.8	Vermont	na	5.8
South Carolina	14.2	11.0	West Virginia	na	9.2
Delaware	14.1	8.4	Wyoming	na	6.8
Tennessee	14.0	9.4	National Avg.	23.0	9.6

Note: Data show the percentage of mortgages that were underwater during the second quarter of 2010.

na = not available. Source: CoreLogic and NPR.

Unemployment rates are seasonally adjusted, preliminary data for September 2010. Source: Bureau of Labor Statistics.