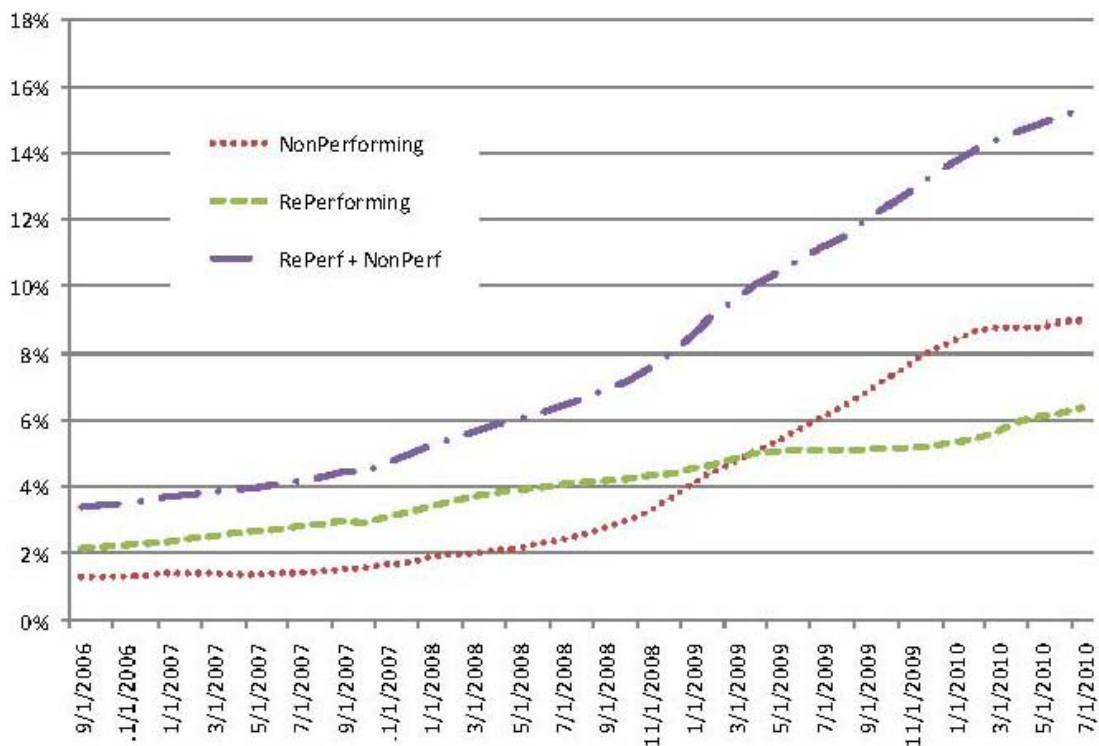


A leading mortgage analyst predicts over 11 million homeowners will default and lose their home if the government fails to take more radical intervention.

Amherst Securities Group LP, one of the most respected names in mortgage research, has trumpeted an ambitious call-to-government arms in its October mortgage report.

“The death spiral of lower home prices, more borrowers underwater, higher transition rates (to default), more distressed sales and lower home prices must be arrested.”

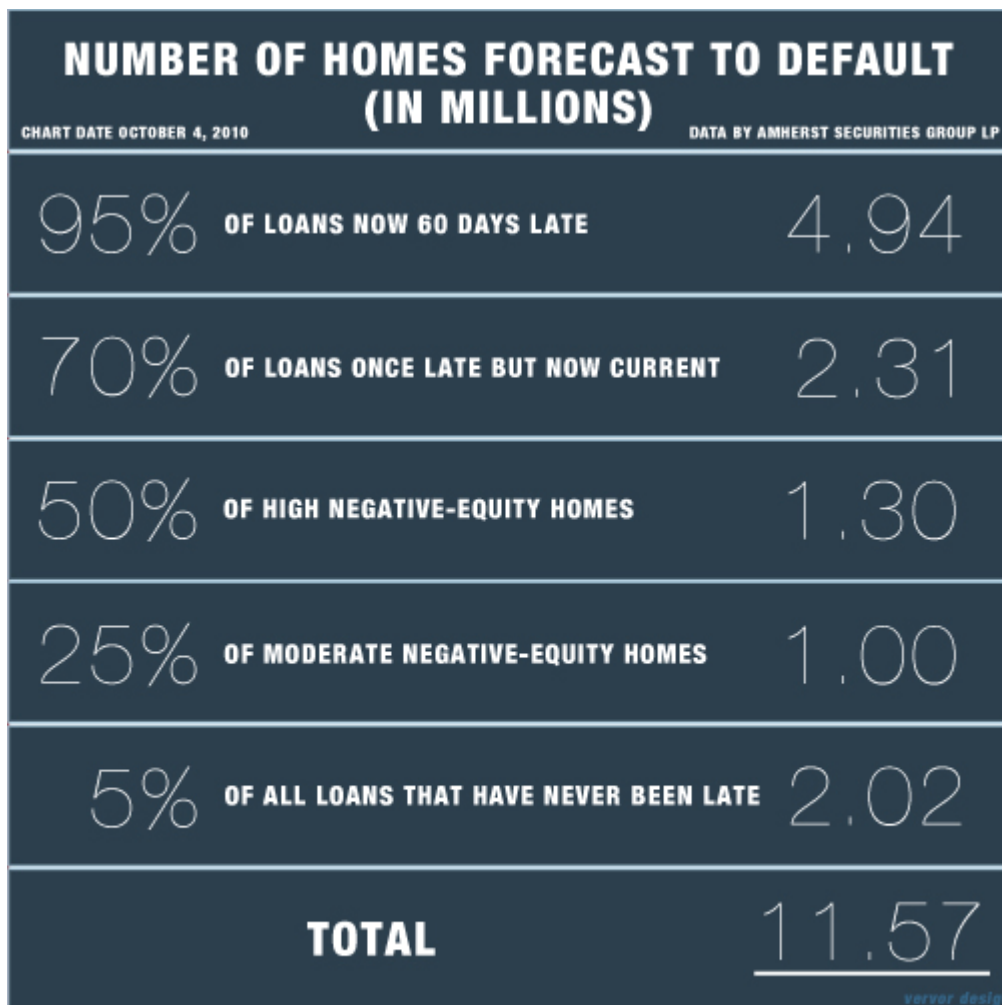
The authors dismiss recent talk of mortgage performance improvement as statistical sleight-of-hand magically conjured by modifications.



The mortgage balances of delinquencies continues to rise and is artificially reduced by modification plans.

“This ‘improvement’ (in mortgage performance) simply reflects large scale modification activity having served to artificially lower the delinquency rate” (Please see the chart above of mortgage balances delinquent and re-performing. All charts in this post are from "Amherst Mortgage Insight" dated October 1, 2010.).

The report offers an astounding forecast of the fate of severe negative-equity properties. Nineteen percent of properties with a loan-to-value (LTV) of 120% or greater are defaulting every year. A death-defying 75% of mortgages on 120% LTV properties will eventually go bad (19% + 19% + 19%, ...).



A leading mortgage expert forecasts 11 million homes or one in five with a mortgage will be lost to default.

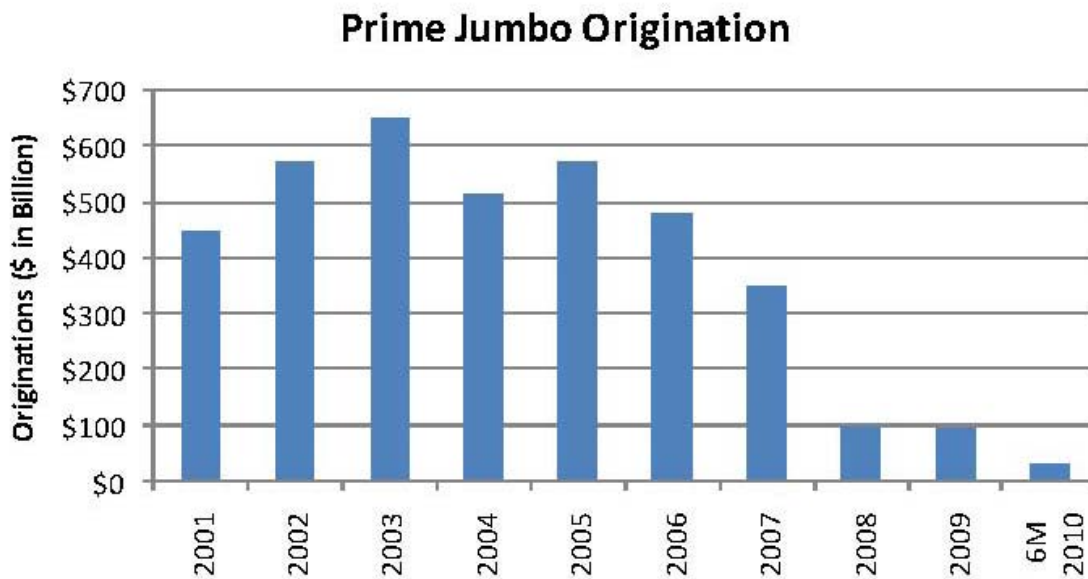
The current crop of mortgages is already “impaired” at the one-of-five level. Nine of 100 are seriously delinquent. Six of 100 are “dirty current” (made current by modification). Five of 100 are seriously underwater (LTV greater than 120%) (Please see the chart above categorizing the forecast of 11 million defaults.).

The authors, who describe current conditions as leading to “an impossible number” of defaults and one that is “politically unfeasible”, unveil a major arms race of measures to counteract the default tide.

The solutions include mandatory principal reductions, looser underwriting of new mortgage loans, leveraged capital pools for investors, and penalties for defaulting homeowners. Amherst reports that a family who defaults can live rent-free for 20 months on average. They propose that missed mortgage payments, including property taxes and insurance, be counted as W2 income.

They make note of recent new signs of distress including two record-low readings of existing home sales in the last two reports. Another block is that underwriting standards have grown much stricter at Fannie and Freddie. Only 2% of Freddie purchases are now bad-credit borrowers where they represented about 20% of borrowers in 2006. FHA purchase mortgages, however, which have by definition much more lenient lending guidelines, have exploded upwards from roughly 10% of their lending in 2006 to more than 50% today.

The buyer pool is also compromised by the fact that 17% of borrowers now have a seriously compromised credit history. After mortgage default a typical wait-time to qualify again is anywhere from 3 to 7 years. One of the more desperate measures suggested by the authors seeks a new mortgage for those who are now behind or in danger of failing. "This (default) can be fixed by re-qualifying borrowers who are in a home they can't afford into one they can afford."



Jumbo mortgages, one of the last significant categories of private investment in property lending, is falling like a rock.

Risk is so high in today's real estate market that private money has largely left the mortgage category. The retreat is most easily seen in the jumbo mortgage market. Total jumbo mortgage origination has fallen from a high of \$650 billion in 2003 to \$92 billion in 2009 (see the chart above). Government loans account for 90% of current originations.

"If government policy does not change, over 11.5 million borrowers are in danger of losing their homes (1 borrower out of every 5)," the report said, which estimates the total of homes with a first mortgage at 55 million. "Politically, this cannot happen."

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Thank you for carrying the story to [Business Insider](#).

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