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## 20% of homeowners 'underwater'

**Study finds more than 20% of U.S. homeowners - about 20 million residences - owe more than their homes are worth.**

By Les Christie, CNNMoney.com staff writer  
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NEW YORK (CNNMoney.com) -- More than 20% of American homeowners owe more on their mortgage debt than they can sell their homes for, according to an industry report released Wednesday.

The real estate Web site Zillow.com reported that 21.8% of all U.S. homes, representing more than 20 million residences, were in a "negative equity" or "underwater" position after prices dropped more than 14% nationally in the year ended March 31.

"A combination of falling prices and low down payments has left many borrowers underwater," said Stan Humphries, Zillow's vice president in charge of data and analytics. "In some markets, more than half of all homes are in negative equity."

Those markets include Las Vegas, where a whopping 67.2% of homeowners would have to bring cash to the table if they sold their homes. Other markets are Stockton, Calif., where 51.1% of homes are underwater, and Modesto, Calif., where 50.8% of homes are in that position.

"That's really important, because homeowners in negative equity have fewer options if they take financial shocks such as divorce, job loss or medical bills, making foreclosure more likely," said Humphries.

Zillow.com based its estimate of negative equity using its own home price estimates. It obtains these by collecting sales records and applying the price trends it finds to other homes in the community. It then compares its home price estimates to the initial loan balances to determine if borrowers have fallen underwater.

The analysis is based on the mortgage balance at the time of purchase and the price changes that have occurred since. It does not take into account that some homeowners may have paid down principal along the way.

Humphries believes it's a conservative approach because the trend has been for people to strip value from their homes in the form of home equity loans and lines of credit, than to add value by paying down their mortgages.

"I think our number is either right on or negative equity may be even a little worse," he said.

**Some dispute:** Not all industry insiders back these findings.

"Zillow's negative equity estimates strike me as a little high," said Richard DeKaser, a real estate analyst and founder

of Woodley Park Research in Washington D.C. He pointed out that other estimates of negative equity from Moody's Economy.com, for example, and First American ([FAF](#), [Fortune 500](#)) CoreLogic, have not been that elevated.

The last CoreLogic report was for data through the end of 2008 and it estimated that 8.3 million homes were underwater.

Moody's Economy.com chief economist Mark Zandi estimated that 14.8 million were underwater at the end of March.

**Foreclosure risk:** Underwater homeowners are much more likely to lose their homes to foreclosure than borrowers with value remaining. That negative equity contributes to foreclosures is supported by Zillow's statistics on foreclosure sales.

In Los Angeles, 20.3% of owners are underwater and foreclosures accounted for 34% of all sales. In the New York metropolitan area, by contrast, only 7.8% of homeowners are underwater and a mere 4.5% of all home sales during the past 12 months were foreclosures.

Negative equity makes it harder for housing markets to revive.

"It puts increased downward pressure on housing prices as defaults increase and add supply to markets," said DeKaser.

It also makes homes more difficult to sell. Underwater owners either have to bring cash to the table in order to pay off the balances of their debts not covered by the sale prices of their homes, or they have to get their lenders to agree to "short sales," for less than what they owe, and have their lenders forgive the unpaid debts.

The problem may be easing a bit. Zillow did report that price drops seem to be moderating in some hard-hit cities, indicating that they might be approaching a bottom, according to Humphries.

"Places like Modesto, Calif. have recorded a couple of quarters of flat or diminishing year-over-year declines," he said. "That's what constitutes the good news in this report." ■

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