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Flash Mobs Battle Spanish Banks to Halt Foreclosures

By Sharon Smyth - Jul 14, 2011

Luis Dominguez got up at dawn to take a 5 a.m. bus to join a human chain around a Madrid home threatened with foreclosure. Three weeks earlier, the crowd had come to him after he telephoned for help.

“I was facing eviction and they saved me from losing my home,” said Dominguez, 74, a pensioner with a walking stick in one hand and a five-foot placard saying “Stop Evictions” in the other. “I came today to show my gratitude and support.”

The 300 protesters, organized by a group called La Plataforma de los Afectados por la Hipoteca, or PAH, managed to win a reprieve for the property’s owner, a single mother with a disabled son. Rising unemployment in Spain may lead to 300,000 foreclosures this year and next, according to Adicae, a rights group representing bank customers.

Spain has become a battleground between banks hurt by a five-fold increase in residential mortgage arrears since 2007 and debt-laden homeowners who are appealing to the government to reduce the burden on those facing foreclosure.

“In large parts of the U.S., you can just walk away from your home and your debt, and that contributed to the country’s banking crisis,” Jordi Fabregat, a professor of management and financial control at Barcelona’s Esade Business School, said by telephone. “That can’t be done here, so the banks are protected from defaults during a crisis.”

Property Bust

Similar to Ireland, whose credit rating was cut to non-investment grade this week by Moody’s Investors Service, Spain’s economic crisis was driven by a credit-fuelled property bubble that burst. The housing boom that ended in 2008 left Spanish banks with 313 billion euros ($441 billion) in loans related to real estate activity as of June, according to the Bank of Spain.

The number of foreclosed homes advertised by Idealista.com, Spain’s largest real-estate website, has risen 10-fold to 30,000 in three years. The properties are valued at about 4.6 billion euros and owned by 40 banks.

“If the banks had to assume all the losses resulting from the bad mortgages they granted during the property boom, the whole financial system would collapse,” Jesus Encinar,Idealista.com’s chief executive officer, said in an interview.

Spanish lenders including Banco Santander SA (SAN) and CaixaBank SA will get the results of a second round of European stress tests tomorrow. The bank bailout fund, known as the FROB, has so far committed about 10 billion euros to recapitalize struggling Spanish savings banks, according to the fund's website.

Twenty a Day

Every day, about 170 homes are foreclosed across the country, Adicae estimates. In Madrid alone, 20 properties are seized by banks and other mortgage providers, according to PAH, a non-profit organization based in Barcelona with more than 5,000 members.

PAH has halted 59 evictions since it was created in 2009, spokesman Eloi Morte said. In each case, the bank had to wait a month before issuing another eviction order, giving the homeowner more time to renegotiate the mortgage contract. Members of the group have gathered again today to thwart an eviction in El Raval, a neighborhood in the center of Barcelona.

Less than nine months before the next national election, lawmakers are trying to make homeowners less vulnerable.

On July 1, the cabinet passed legislation forcing lenders that seized homes to auction them for as little as 60 percent of the estimated value. Previously, the minimum bid was fixed at 70 percent of the value, discouraging buyers in a market where house prices have fallen 26 percent from the 2007 peak, according to a July 5 report by Fotocasa.es, a real-estate website, and the IESE Business School.

No Bidders

If there are no bidders, banks can now award themselves the property for 60 percent of the appraisal value, leaving the mortgage holder liable for the remaining 40 percent minus any loan repayments that have been made. Before the law was changed, lenders could get the property for half of its estimated value, increasing the amount payable by the former owner.

"Responding to populist pressure is all very well, but you have to take care not to ruin a mortgage market that is seen as a model internationally," Angel Cano, president and chief operating officer of Banco Bilbao Vizcaya Argentaria SA (BBVA), told reporters in Barcelona last month. BBVA is Spain's second-largest bank.

Enforced Write-offs

The measures don't go far enough for PAH, whose name means"platform for those affected by their mortgage," and opposition parties including the Galician Nationalist Bloc. They want the government to force banks to write off the debt of homeowners who default due to illness or loss of employment, or if the property is their only residence.

"We're still seeing cases of people who lose their homes and still owe the bank as much as 200,000 euros," Morte said.

Bankinter SA (BKT), a Madrid-based lender with about two-thirds of its loan book in mortgages, said on July 12 that it will offer Spain's first non-recourse mortgages. Homebuyers will be able to take out a 40-year loan for as much as 80 percent of the purchase price without being personally liable, the bank said, without disclosing the interest rate.

In June, the Spanish parliament set up a committee to examine Spain's mortgage industry and, if necessary, recommend changes to the law. The committee will report on its findings by the end of the year.

House prices more than tripled during the market's 13-year boom, encouraging banks to offer mortgages of as much as 120 percent of the property's true value, said Fernando Herrero, general secretary for Adicae in Madrid. Like in places such as the U.K., homebuyers could use the extra money to carry out refurbishments or buy a car, he said.

'Irresponsible' Lending

"Banks inflated valuations and granted subprime loans to people without sufficient guarantees to pay them back," Herrero said in an interview. "They were irresponsible."

Jose Blanco, Spain's development minister, said on July 7 that there are many mortgages that shouldn't have been granted"under any circumstances." Since no one was better placed to judge risk than the banks, they should take some responsibility for the fallout, he said.

According to Professor Fabregat, a bank should never grant a mortgage that exceeds 80 percent of a property's value and monthly mortgage repayments should never be more than 30 percent of an individual's monthly income.

'Crossed the Line'

"These were two red lines that banks happily crossed time and time again," he said. "This led us to a situation where families are being turned out into the street."

A spokeswoman for the Spanish Banking Association, who declined to be identified, said lenders have never granted mortgages to homebuyers in the knowledge that they wouldn't be able to pay back the money.

Spanish banks have about 614 billion euros of outstanding residential mortgages, according to data from the Bank of Spain. At 21 percent, the jobless rate is the highest in Europe, making it harder for borrowers to keep up with their payments.

The delinquency rate rose to 2.5 percent at the end of the first quarter from 0.5 percent in the first three months of 2007. That's still lower than the U.S. rate of 8.1 percent and Ireland's 6.3 percent.

Spanish lenders also hold 69 billion euros of Spanish sovereign debt, according to the Treasury's website.

The yield on Spanish government ten year bonds soared to close at 6.03 percent, up 137 basis point a from a year ago, to a euro-era record on July 11 as investors increased bets on a default amid contagion from Europe's debt crisis.

Extra Capital

Spanish banks may need to raise as much as 4 billion euros of extra capital if homeowners are given the right to cancel mortgage contracts without being saddled with the debt, according to New York-based management-consulting firm Oliver Wyman. This could force lenders to add 400,000 unwanted properties to their balance sheets.

Home prices may fall by an additional 20 percent in the next four years before bottoming out, R.R. de Acuna & Asociados, a Madrid-based real-estate consulting firm, said at a briefing last month. The company estimates there are about 1.5 million unsold homes, which won't be absorbed for another six years.

Jaime Alvarez, professor of finance at Madrid's Complutense University, said there's is no way of helping homeowners to reduce their debts without hurting lenders.

"The committee is merely cosmetic and won't recommend any changes that will hurt the banks because they're Spain's sacred cows," said Alvarez, who was also a co-founder of Publica Subasta, Spain's largest complier of data on public auctions.

Dominguez, meanwhile, will be putting on his green T-shirt, with "Stop Evictions" in Spanish written in red across the front, and will keep on trying to prevent more people from losing their home until the law is changed.

"These people aren't going away," he said after the locksmith, banker and lawyer were impeded from evicting the Madrid homeowner last week. "And neither am I."

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