Another wave of foreclosures is poised to strike

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John Wayne, left, owner of California Realty in Victorville, is helped by an employee as he hangs a sign advertising for future business after California imposed a statewide 90-day moratorium on housing foreclosures.

Mortgage defaults have surged to record levels amid rising unemployment and falling home prices. Lenders are expected to move quickly to clear up backlogs as moratoriums on foreclosures expire.

By Don Lee
July 4, 2009

Reporting from Washington -- Just as the nation's housing market has begun showing signs of stabilizing, another wave of foreclosures is poised to strike, possibly as early as this summer, inflicting new punishment on families, communities and the still-troubled national economy.

Amid rising unemployment and falling home prices, mortgage defaults have surged to record levels this year. Until recently, many banks have put off launching foreclosure action on the troubled properties, in part because they had signed up for the Obama administration's home-stability plan, which required them to consider the alternative of modifying loans to make it easier for borrowers to make payments.
Just how big the foreclosure wave will be is unclear. But loan defaults are up sharply. And with many government and banks' self-imposed foreclosure moratoriums expiring, the biggest lenders indicate that they are likely to move more aggressively to clear up a backlog of troubled mortgages.

Nationally, home sales have been steadying, thanks largely to an abundance of cheap foreclosed properties, government incentives and record low mortgage rates. Housing construction starts have flattened out, helping to bring supply into balance with demand. The rate of housing price declines has slowed as well, even turning up in some communities.

But rising foreclosures will depress home values, pushing more homeowners underwater. Mark Zandi of Moody's Economy.com estimates that 15.4 million homeowners -- or about 1 in 5 of those with first mortgages -- owe more on their homes than they are worth.

Also, consumer confidence is already exceedingly low, and another jolt to the housing market could further crimp spending, which has been pummeled by the deep recession and persistent weakness in the job market. The latest unemployment rate, for June, rose to 9.5%, and many analysts predict that it will keep rising until the middle of next year.

The rapid pace of layoffs is of particular concern. Employers shed nearly a half-million jobs in June. Homeowners who are out of work have little chance of having their mortgages modified. That puts many homeowners on a collision course with banks that are preparing to take a more aggressive stance.

"Absolutely," Chase Bank spokesman Tom Kelly said when asked about an impending surge in foreclosures. Since April 6, Chase has approved modifying 138,000 loans under Obama's program. But an undisclosed number of other Chase borrowers didn't meet modification eligibility, and many of those homeowners face possible foreclosure.

Separate from that group, Kelly said, Chase is proceeding to deal with an additional 80,000 borrowers in default whose foreclosure process had been voluntarily halted by the lender starting late last year.

Bank of America, the nation's largest servicer of home mortgages, also did not release the volume of likely foreclosures. The bank said it had extended offers to modify loans to more than 45,000 borrowers under the Obama plan. Bank of America spokesman Dan Frahm said the company was projecting a "slow increase" in the number of monthly foreclosures, potentially reaching 30% above previous normal levels.

Much will depend on how quickly lenders can push the process along. It generally takes three months to a year from the time a borrower receives a notice of default to a foreclosure sale, in which case the lender usually takes title to the property.

Government and company reports show that the number of completed foreclosures nationwide slowed sharply late last year and into early this year, largely because of various moratoriums in effect during much of the first quarter.

But anecdotal reports indicate that foreclosure sales have started to climb again in the second quarter. And the pipeline is clearly getting fuller.

In the first quarter, some 1.8 million homeowners nationwide fell behind on their loans by 60 to 90 days, a 15% increase from the prior quarter, according to Moody's Economy.com. The research firm said that loan defaults rose sharply as well, to 844,000 in the first three months of this year.

California accounts for an outsized share of mortgage loan defaults. A stunning 135,431 homeowners in the state were hit with notices of default in the first quarter, an increase of 11% from the earlier peak in the second quarter of 2008, according to real estate information service MDA DataQuick. Foreclosure sales in the state have been moderating after averaging a high of 26,500 a month last summer.

In some communities such as Stockton, Calif., where the real estate market has been among the hardest hit in the nation with home prices plunging 60% in the last two years, many people are expecting a large increase in foreclosures.

Sales of foreclosed houses soared last year as investors and first-time home buyers swarmed over what were considered bargain houses. This year it's been unusually quiet, says Jerry Abbott, a broker and co-owner of Grupe Real Estate in Stockton. That doesn't make sense, he said, because he sees many houses in foreclosure in the city.

But just recently, said the 37-year real estate veteran, there's been a surge of requests for so-called broker price opinions, or appraisals that lenders often ask brokers to provide just before they put a foreclosed property on the market.

"I think it's going to be a very big wave," he said. "Just like what we saw through 2008."

The effect on prices won't be as severe, Abbott said, because values already have plunged and there's hearty demand for such properties.

http://www.latimes.com/business/la-fi-foreclosure4-2009jul04,0,5145254.story