

# Foreclosure numbers fall, but market not in clear

Mortgage probe results will affect future loans

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In April 2010, lenders filed 631 new foreclosure lawsuits in Brevard County.

A year later, just 212 such cases entered the local court system. That was the lowest number of foreclosure filings here since 2006, when the housing crisis was starting to unfold.

Last month's figure was no one-month aberration. Foreclosure filings first began to drop sharply last fall, both locally and nationwide, and have continued their decline.

In the first four months of this year, lenders filed just 951 new foreclosures suits, compared with 2,881 during the same period in 2010, and 3,527 in 2009.

Does this mean the foreclosure crisis nearing its end?

Probably not. But how it plays out in the coming months and years might be very different than how it has unfolded up until now.

In the meantime, there are plenty of signs that the foreclosure situation is far from resolved.

Nearly a quarter of all mortgages in [Florida](#) are either delinquent or in foreclosure. Almost half of all homeowners in the state owe more than their houses are worth, making them more likely to default on loans. And while "short sales" -- in which lenders agree to sales where they'll receive less than owed -- may ease the number of homes going into foreclosure, they still put downward pressure on home prices.

"The fact of the matter is that there is plenty of distressed properties on the market with a boatload more to come," said Rick Sharga, senior vice president of RealtyTrac, a leading aggregator of foreclosure information.

But government probes over shoddy foreclosure practices, coupled with a glut of homes already foreclosed but not resold, could lead to banks slowing down the process of repossessing homes and pushing alternative solutions such as short sales.

## 'Robo-signing'

The slowdown was first sparked last year by revelations of sloppy and improper legal work by lenders and their law firms. Most notable was "robo-signing," the practice of having an employee -- often one with little or no legal or financial training -- sign hundreds or thousands of affidavits a day confirming they had reviewed foreclosure files and that the documents were complete and accurate.

News of such legal shenanigans forced lenders to fire these law firms -- labeled "foreclosure mills" by critics -- and reassign hundreds of thousands of foreclosure files to new lawyers who then had to review the volumes of paperwork already filed. That time-consuming process is ongoing.

The federal government and a coalition of the 50 state attorneys general continue to investigate the mortgage industry's foreclosure practices.

Nobody expects that the investigations will put a stop to foreclosures. But the uncertainty of how the investigations will play out has certainly slowed the process of settling current foreclosures and starting new proceedings, especially in states such as Florida, where foreclosures are handled by courts.

The outcome of the investigations will play a big role in how lenders proceed with foreclosures.

"It depends on what happens with the robo-signers issues," said Shari Olefson, a South Florida real estate attorney and author of "Foreclosure Nation." "The banks aren't going to do anything until they are sure."

## **Less appeal**

Legal problems aside, lenders also have an economic incentive not to repossess large numbers of new homes in the near future.

As it is, they have to deal with the large backlog of homes they already have on their books -- more than 73,000 in Florida among nearly 900,000 nationwide, according to RealtyTrac. The company estimated that at the current rate of sales, it would take three years for banks to sell all the homes they have already repossessed along with those in the process of foreclosure.

And a separate RealtyTrac report released this past week indicates that buyers' appetites for such properties is declining in Brevard and across the state, further lengthening that three-year estimate.

According to the report, 27 percent of the homes sold in the county during the first quarter of the year were foreclosures. That's down from 29 percent a year earlier and 30 percent in the fourth quarter of 2010.

One reason for the slowdown in sales of foreclosed properties might be that a majority of the lower-end homes that would be most attractive to investors have already been bought. Local real estate professionals say there are fewer of those types of properties available in the county now than six months or a year ago.

But investors aside, buyers looking for homes to move into may also be discovering that foreclosed homes are not necessarily the bargains they thought they might have been. While foreclosures typically sell at a discount to "similar" properties -- currently 21 percent in Brevard, according to RealtyTrac -- the term "similar" refers to general characteristics, not specific comparisons.

For instance, a foreclosed three-bedroom, two-bath home with 1,900 square feet might sell for 21 percent less than another three-bedroom, two-bath house of the same size in the same neighborhood. But foreclosed homes typically are sold "as is" and may require thousands of dollars to bring it up to the same condition as the other home.

Sharga says that lenders are starting to show signs of "inventory management" when it comes to the foreclosure process and that he doesn't expect a flood of new foreclosures to hit the market once the legal issues are worked through.

"There is no incentive for them to rush through foreclosing on more properties when they are sitting on hundreds of thousands of properties they can't move," he said.

## Playing it out

One possible outcome of the legal problems surrounding foreclosures is that lenders might become more willing to modify mortgages for troubled homeowners, though previous government efforts to encourage modifications have fallen far short of their goals.

"Many of the programs have been nothing more than a Band-Aid on a hatchet wound," said Pete Flint, CEO of the real estate website Trulia.com.

**Olefson** said she hasn't seen many signs that lenders are making more modifications, although she said more and more lenders are pushing short sales rather than foreclosures as a way of dealing with homeowners who can't make their mortgage payments.

One way or another, she said, the housing market won't return to normalcy until the process has played out. "We have to get people who can't afford their mortgages out of those homes and get people who can afford them into them."

In the meantime, she said, everybody is being hurt by the crisis.

"This is all about the 10 percent of the people who aren't paying their mortgages. . . . Ninety percent of us aren't even involved in this, but our property values are getting slammed."

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