Foreclosure delay could push back rebound

By Julie Schmit
USA TODAY

Foreclosure delays are likely to bring reprieves to 1 million financially troubled homeowners this year, but they threaten to further postpone the U.S. housing market's recovery, a report out Thursday shows.

Foreclosure actions — including default notices, auction sale notices and bank repossessions — will be filed on about 2 million homes this year, 1 million fewer than there should be based on the number of delinquent loans, says market researcher RealtyTrac.

Delays occur for a variety of reasons, including mortgage servicing firms' uncertainty about future foreclosure rules. Federal and state officials and the mortgage industry are negotiating a settlement that is likely to define those.

The delays mean borrowers get more time in homes without paying mortgages. They also have led to fewer distressed homes for sale, which has probably curbed price declines, says economist Mark Zandi at Moody's Analytics.

Yet the delays extend the time to clear the housing market's supply of distressed homes, which pull down prices of other homes.

"Foreclosures are getting delayed, and that will delay the housing recovery, too," says RealtyTrac Senior Vice President Rick Sharga.

Nationwide, more than 6 million home loans are delinquent or in foreclosure.

Home prices, down more than 30 percent from their 2006 peak, cannot rebound until there are fewer distressed home sales, says Stan Humphries, chief economist for real estate website Zillow.com. Current and future foreclosures and high unemployment are the two biggest drags on the U.S. housing market, he says.

In May, distressed

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homes accounted for 31 percent of existing home sales, selling at a 20 percent discount to non-distressed homes, according to the National Association of Realtors.

Foreclosures may pick up late this year or early next as uncertainty about new regulations subsides, says Jason Kopcak, a mortgage loan expert at Cantor Fitzgerald.

Companies have probably delayed foreclosures as they await the federal-state settlement, Sharga says. Major mortgage servicers submitted plans Wednesday to improve their processes that were mandated by federal banking regulators. Those plans will be reviewed by regulators and may change depending on the settlement with state and federal officials.

The foreclosure slowdown began last fall after revelations that tens of thousands of foreclosure cases may have been improperly handled.

Foreclosure filings through June were down 29 percent year-over-year, RealtyTrac says. Homes lost to foreclosure in the second quarter were in the foreclosure process for an average 318 days — 41 days longer than in the same quarter last year.

The falloff in foreclosures has been sharper in some states. In Connecticut, Maryland, New Jersey and New York, foreclosure sales are down more than 70 percent since September, says mortgage tracker LPS Applied Analytics. The average drop nationwide was 37 percent.

States that clear their foreclosures quickly will probably see prices increase faster than those that take longer to absorb foreclosure inventories Zandi says.