US sales of foreclosure homes rose in 1Q

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LOS ANGELES — Homes in some stage of the foreclosure process saw their share of overall U.S. home sales grow in the first quarter even as sales of bank-owned homes fell.

The increase was driven by a spike in short sales, or homes that sell for less than what the owner owed on their mortgage, foreclosure listing firm RealtyTrac Inc. said Thursday.

Short sales make up the vast majority of homes sold while still in the foreclosure process. Those that aren't sold or auctioned off typically end up being repossessed by banks, what most people commonly think of as foreclosures.

In the first quarter, short sales grew 25 percent from a year earlier, hitting a three-year high. In contrast, sales of bank-owned properties declined 15 percent versus the first three months of last year, the firm said.

The trend indicates a greater likelihood that home prices will continue to soften, as foreclosures and short sales typically sell at sharp discounts to other homes.

It also suggests a shift in the way lenders handle mortgages that have gone unpaid.

Lenders may be favoring short sales versus waiting for troubled loans to go through the foreclosure process to take back the homes securing the loan, said Daren Blomquist, a vice president at RealtyTrac.

"A short sale is a safer alternative to avoid any potential problems that they face because of the way they're processing foreclosures," Blomquist said.

Last year, mortgage lenders grappled with allegations that they had been processing foreclosures without verifying documents. The pace of foreclosures slowed sharply as the nation's biggest mortgage lenders worked to hammer out a settlement with state and federal officials.

They reached a $25 billion settlement in February, clearing the way for banks to take action on unpaid mortgages.