

Economists divided as foreclosure filings fall

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August marked the first month since 2005 that foreclosure activity in Inland Southern California and statewide dropped from a year earlier, leading some to hope that government efforts to prevent people from losing their homes are beginning to work.

Foreclosure filings in Riverside County -- including notices of default, trustee sales and repossessions -- last month dropped almost 16 percent from July and 12 percent from the previous August.

The decline in San Bernardino County was more than 17 percent from July and almost 19 percent from a year earlier. "It is welcome news, no question. It means financial institutions are doing anything possible to prevent foreclosures," Chapman University economist Esmael Adibi said of the numbers released Wednesday by RealtyTrac, an Irvine-based company that markets foreclosures online.

One of the most encouraging signs, Adibi said, is that the volume of mortgage default notices sent to borrowers, the first stage in the foreclosure process, shrank last month in Riverside and San Bernardino counties and in the state.

But foreclosures remain at a historically high level, and with economic and other uncertainties in the wings, there is little agreement about the chances that good news will persist.

Daren Blomquist, a RealtyTrac spokesman, said California is the first among the leading foreclosure states to see a significant year-over-year decline in foreclosure filings of more than 9 percent.

The improvement may be credited in part to California's exceptionally aggressive efforts to encourage financial institutions to offer loan modifications, he said. Among the efforts he noted were statewide foreclosure moratoriums that have given borrowers extra time to obtain help from the companies that service their loans.

GUIDELINES PROVIDED

The Obama administration's Making Home Affordable Program, launched in March, provided guidelines for financial institutions to modify mortgage terms to make them more affordable for troubled homeowners. This also may account in part for August's foreclosure downturn, Blomquist said.

Riverside County in August ranked second in the rate of foreclosures, with one filing for every 74 households, and San Bernardino County ranked sixth, with one filing for every 87 households.

Blomquist cautioned it is too early to know if August will mark the turning point when foreclosure rates start to ebb.

"If we see this trend continuing through the end of the year that would be pretty conclusive evidence that we are seeing some real measurable improvements in the foreclosure rates in California," he said.

Foreclosure filings spiked in August last year, before a state law extended the time before a loan servicer could send a borrower a notice of default.

So last month it would have been easier than usual to show a decline in foreclosures compared to a year earlier, Blomquist said.

Even experts disagree about what the report portends for the future.

EFFORTS CRITICIZED

Kevin Stein, associate director for the California Reinvestment Coalition, a Sacramento-based consumer advocacy group, was skeptical that the tide could be turning. He was critical of the effectiveness of the state's efforts to get lenders to modify mortgages for people before they go into default.

Stein noted that the economy and job losses are adding stresses for homeowners. The unemployment rate has climbed past 14 percent in Riverside and San Bernardino counties and 12 percent in the state.

Another problem, Stein said, is that nationwide, about half a million adjustable rate mortgages are scheduled to reset to higher monthly payments over the next couple of years.

"I don't want to be too pessimistic, but we don't see the foreclosure situation improving significantly in the short term," Stein said.

However, Adibi said the economy could become less of an obstacle in efforts to reduce foreclosures because he believes the unemployment rate in Inland Southern California and statewide is near its peak and the rate of job losses will fall.

Chris Thornberg, an economist with Los Angeles-based Beacon Economics, said he expects foreclosures will increase rather than subside.

For proof, he points to a report from the Mortgage Bankers Association that, at the end of June this year, 6 percent of mortgages held by homeowners who borrowed with good credit were 60 to 90 days past due, compared to 2.5 percent a year earlier.

Thornberg said he does not think attempts to modify mortgages to make them affordable to struggling homeowners will make a meaningful dent in the problem.

"The modifications sound good on paper, but the banks don't have enough of a financial incentive to go through with it," Thornberg said.

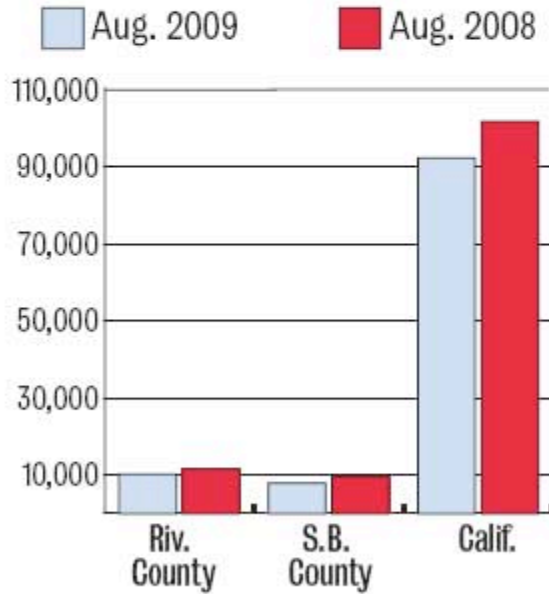
The Obama administration has indicated its wishes for financial institutions to redouble their efforts to implement the Making Home Affordable modification program.

Melinda Opperman, vice president of community outreach for Springboard Nonprofit Consumer Credit Management, said the Riverside-based organization has seen increasing success in helping people renegotiate their mortgages.

"We are seeing an uptick in modifications. We are doing three-way calls with consumers and lenders, and getting modifications offered on the telephone," she said.

FORECLOSURES: For the first time since 2005, California in August saw a year-over-year drop in foreclosure activity. Riverside and San Bernardino counties showed the same trend.

Total foreclosure activity (defaults, trustee sales and repossessions)



SOURCE: REALITYTRAC

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