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Foreclosures decline in California in 2010

While foreclosures climbed 2% nationally, California saw a 14% drop. But California's high unemployment rate and resetting loans mean the fall in foreclosure activity could be brief.

By Alejandro Lazo, Los Angeles Times

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Fewer Californians grappled with foreclosure last year, bucking a national trend and giving homeowners fresh hope that the state's housing market could be on the mend.

The 14% drop in foreclosure activity contrasted with a 2% rise nationally, according to data tracking firm RealtyTrac. Analysts noted that California's housing market was among the first to falter and may now be among the first to recover. Home prices here hit bottom in April 2009, and have gradually risen since then.

"There are a lot of risks out there, but I think the trend is improvement — not dramatic, but substantial," said Kenneth Rosen, a professor at UC Berkeley's Haas School of Business.

But Rosen and other observers caution that the state's high unemployment rate of 12.4% and weak demand for housing are still a concern.

Another potential trouble spot: A large number of adjustable-rate mortgages are scheduled to reset to higher rates in coming months, said Rick Sharga, senior vice president with RealtyTrac. That could lead to another uptick in foreclosures if the borrowers cannot make the higher payments, or decide that they are throwing good money after bad.

"You have the three-headed monster of high unemployment, a weak economy and problem loans," said Sharga, who thinks that California foreclosures in 2011 could surpass last year, and possibly the peak year of 2009.

The crisis certainly isn't over for Guy Vernikovsky. He is facing foreclosure on his home in Torrance after trying multiple times to modify his loans, asking for lower interest rates from his bank, he said.

Vernikovsky, 32, said he lost his job installing energy-efficient light fixtures in 2008 but tried his best to keep up on his two mortgages, even burying himself deeply in credit card debt. He said he moved home with his parents in Northern California, found a new job and would now be able to make his mortgage payments if he could get reduced interest rates on his two loans.

"I applied two or three different times and they would not modify my loans," Vernikovsky said. "I wasn't looking to turn a fast buck on a real estate market that was hot at the time. I was really looking to own that home for the next 20 to 30 years."

More than half a million California homes were involved in some stage of foreclosure last year, including notices of default as well as bank repossessions, according to numbers to be released by RealtyTrac on Thursday. Among those filings, 173,175 represented homes retaken by lenders, a 13% drop from a year ago.

Nationwide, a record 2.9 million homes were in foreclosure, up 2% from 2009.

Sharga said the national numbers would have been much higher were it not for several major banks' slowing foreclosures dramatically late last year amid scrutiny from lawmakers, regulators and law enforcement officials over their foreclosure practices, including allegations that paperwork was not properly processed.

"There were delays over the last two months, or 2 1/2 months, and that just skewed the numbers wildly," he said.

Sharga estimated that an additional quarter-million filings in the U.S. probably would have been logged if it were not for the delays brought about by the foreclosure fracas.

Several major banks, including Bank of America, Ally Financial Inc. and JPMorgan Chase & Co., suspended foreclosures late last year in states where a court order is required to take back a home. Bank of America went as far as to declare a national freeze as it reviewed its process, though it lifted that policy in November.

Analysts credited the Bank of America action for depressing foreclosure sales across the Golden State in November and a subsequent sharp increase last month.

How quickly banks will return to foreclosing in the new year remains the wild card in the equation.

Homeowners who have lost their properties to foreclosure are making gains challenging the foreclosure system through the legal process. Last week, the highest court in Massachusetts agreed with a lower-court ruling that two home foreclosures were invalid, and found that lenders Wells Fargo Bank and US Bank had failed to prove they owned the mortgages.

The case was significant because it was the first time that a state supreme court had ruled on the issue of chain of title. A spokeswoman for California Atty. Gen. Kamala D. Harris said such lawsuits might be brought in the Golden State, where foreclosures remain largely outside the court system.

"We have now officially begun the litigation phase of the foreclosure crisis," Sean O'Toole, chief executive of data provider ForeclosureRadar, recently wrote on his blog. "Attorneys will likely be the biggest winners in the foreclosure business for 2011."

About 4% of all homes in California were at some stage of foreclosure last year, RealtyTrac said. That acts as a drag on the housing market overall, as the availability of low-priced bank repossessions lowers the value of competing properties.

Christopher Thornberg, principal of Beacon Economics, said that high rates of default among borrowers in California are likely to push up foreclosures, but so far the state's fairly efficient foreclosure system and active housing market have been able to absorb these properties.

"They get snapped up pretty quickly," Thornberg said. "We are not ending up with swaths of empty homes the way that was being predicted."

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