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As Lenders Hold Homes in Foreclosure, Sales Are Hurt
Joshua Lott for The New York Times

By ERIC DASH NY Times
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[PHOTO] Jayson Meyerovitz, a broker in the Phoenix area, is concerned about bank-owned foreclosures: "If so many houses hit the market, what is going to happen then?"

EL MIRAGE, Ariz. — The nation's biggest banks and mortgage lenders have steadily amassed real estate empires, acquiring a glut of foreclosed homes that threatens to deepen the housing slump and create a further drag on the economic recovery.

All told, they own more than 872,000 homes as a result of the groundswell in foreclosures, almost twice as many as when the financial crisis began in 2007, according to RealtyTrac, a real estate data provider. In addition, they are in the process of foreclosing on an additional one million homes and are poised to take possession of several million more in the years ahead.

Five years after the housing market started teetering, economists now worry that the rise in lender-owned homes could create another vicious circle, in which the growing inventory of distressed property further depresses home values and leads to even more distressed sales. With the spring home-selling season under way, real estate prices have been declining across the country in recent months.

"It remains a heavy weight on the banking system," said Mark Zandi, the chief economist of Moody's Analytics. "Housing prices are falling, and they are going to fall some more."

Over all, economists project that it would take about three years for lenders to sell their backlog of foreclosed homes. As a result, home values nationally could fall 5 percent by the end of 2011, according to Moody's, and rise only modestly over the following year. Regions that were hardest hit by the housing collapse and recession could take even longer to recover — dealing yet another blow to a still-struggling economy.

Although sales have picked up a bit in the last few weeks, banks and other lenders remain overwhelmed by the wave of foreclosures. In

Atlanta, lenders are repossessing eight homes for each distressed home they sell, according to March data from RealtyTrac. In Minneapolis, they are bringing in at least six foreclosed homes for each they sell, and in once-hot markets like Chicago and Miami, the ratio still hovers close to two to one.

Before the housing implosion, the inflow and outflow figures were typically one-to-one.

The reasons for the backlog include inadequate staffs and delays imposed by the lenders because of investigations into foreclosure practices. The pileup could lead to $40 billion in additional losses for banks and other lenders as they sell houses at steep discounts over the next two years, according to Trepp, a real estate research firm.

“These shops are under siege; it’s just a tsunami of stuff coming in,” said Taj Bindra, who oversaw Washington Mutual’s servicing unit from 2004 to 2006 and now advises financial institutions on risk management. “Lenders have a strong incentive to clear out inventory in a controlled and timely manner, but if you had problems on the front end of the foreclosure process, it should be no surprise you are having problems on the back end.”

A drive through the sprawling subdivisions outside Phoenix shows the ravages of the real estate collapse. Here in this working-class neighborhood of El Mirage, northwest of Phoenix, rows of small stucco homes sprouted up during the boom. Now block after block is pockmarked by properties with overgrown shrubs, weeds and foreclosure notices tacked to the doors. About 116 lender-owned homes are on the market or under contract in El Mirage, according to local real estate listings.

But that’s just a small fraction of what is to come. An additional 491 houses are either sitting in the lenders’ inventory or are in the foreclosure process. On average, homes in El Mirage sell for $65,300, down 75 percent from the height of the boom in July 2006, according to the Cromford Report, a Phoenix-area real estate data provider. Real estate agents and market analysts say those ultra-cheap prices have recently started attracting first-time buyers as well as investors looking for several properties at once.

Lenders have also been more willing to let distressed borrowers sidestep foreclosure by selling homes for a loss. That has accelerated the pace of sales in the area and even caused prices to slowly rise in the last two months, but realty agents worry about all the distressed homes that are coming down the pike.

“My biggest fear right now is that the supply has been artificially restricted,” said Jayson Meyerovitz, a local broker. “They can’t just sit there forever. If so many houses hit the market, what is going to happen then?”

The major lenders say they are not deliberately holding back any foreclosed homes. They say that a long sales process can stigmatize a property and ratchet up maintenance and other costs. But they also do not want to unload properties in a fire sale.

“If we are out there undercutting prices, we are contributing to the downward spiral in market values,” said Eric Will, who oversees distressed home sales for Freddie Mac. “We want to make sure we are helping stabilize communities.”

The biggest reason for the backlog is that it takes longer to sell foreclosed homes, currently an average of 176 days — and that’s after the 400 days it takes for lenders to foreclose. After drawing government scrutiny over improper foreclosures practices last fall, many big lenders have slowed their operations in order to check the paperwork, and in two dozen or so states they halted them for months.

Conscious of their image, many lenders have recently started telling real estate agents to be more lenient to renters who happen to live in a foreclosed home and give them extra time to move out before changing the locks.

“Wells Fargo has sent me back knocking on doors two or three times, offering to give renters money if they cooperate with us,” said Claude A. Worrell, a longtime real estate agent from Minneapolis who specializes in selling bank-owned property. “It’s a lot different than it used to be.”

Realty agents and buyers say the lenders are simply overwhelmed. Just as lenders were ill-prepared to handle the flood of foreclosures, they do not have the staff and infrastructure to manage and sell this much property.

Most of the major lenders outsourced almost every part of the process, be it sales or repairs. Some agents complain that lender-owned home listings are routinely out of date, that properties are overpriced by as much as 10 percent, and that lenders take days or longer to accept an offer.

The silver lining for home lenders, however, is that the number of new foreclosures and recent borrowers falling behind on their payments by three months or longer is shrinking.

“If they are able to manage through the next 12 to 18 months,” said Mr. Zandi, the Moody’s Analytics economist, “they will be in really good shape.”

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