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Foreclosure crisis slow to end in state, experts say

By **Lee Howard**

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Lagging economy, process share blame

Slow job growth and a slower judicial process are impeding Connecticut's ability to fight through a foreclosure crisis that refuses to quit, according to economists statewide.

But a leading proponent of foreclosure mediation in the state, while acknowledging Connecticut's timeline for deciding such cases isn't running anywhere near warp speed, says criticism of the judicial process ignores the fact that more property owners here than in other states have been able to stay in their homes.

"We're only looking at our losses," said Jeff Gentes, foreclosure prevention staff attorney at the Connecticut Fair Housing Center in Hartford.

Gentes said the state's foreclosure mediation program boasts an 83 percent success rate. More favorable outcomes for both homeowners and lenders resulted from the program, he said.

Connecticut was one of only 10 states last year to see foreclosure activity increase, according to numbers released this month by RealtyTrac, a California-based real-estate information provider. It also was No. 7 on RealtyTrac's list of states that take the most time in settling foreclosure cases, and was ranked No. 4 nationally in terms of overall foreclosure rate.

"Our average length of time for foreclosures to go through the system is one of the longest," said Pete Gioia, an economist and vice president of the Connecticut Business & Industry Association, citing the 666 days it takes on average for distressed properties to work their way through the state's current legal maze.

Though Gioia acknowledged that the judicial process helps some homeowners who are trying to regain their financial footing, he said there are some "deadbeats who tool the system."

Gioia added that Connecticut's slow job growth "doesn't help." The state is only about halfway toward recouping all the jobs lost during the last recession, compared with a national jobs recovery of 85 percent, he said.

Don Klepper-Smith, an economist with DataCore Partners in New Haven, said Connecticut's underperforming economy also is partially to blame for the continuing foreclosure overhang. While a typical economic recovery comes with growth in real disposable income ranging from 4 percent to 6 percent, he said last year's gain was only fractional.

"If you don't have the financial resources to keep up (with your bills), there's an increasing likelihood of foreclosures," Klepper-Smith said.

John Clapp, a professor of finance and real estate at the University of Connecticut, blamed the continuing foreclosure problem on the state's relatively high unemployment rate and sluggish growth in total employment.

A statewide moratorium on foreclosures in 2010 also "sent a negative signal to the business community about the validity of contracts in Connecticut," he added.

Gentes, however, called the foreclosure moratorium a myth, saying banks were never forced to stop legal actions to seize homes but decided individually to stand down from aggressive tactics after regulators found out about such illegal practices as the so-called "robo-signing" of paperwork.

"Banks stopped committing perjury on a systematic basis," Gentes said.

Gentes said his office was helping homeowners facing foreclosure at about the same clip in 2013 as it had in the previous two years, though things weren't as busy as in 2010 during the height of the crisis.

"There are still a lot of people struggling," he said.

While foreclosures were down by 26 percent nationwide in 2013 compared with the previous year, according to RealtyTrac, Connecticut's inventory of residential properties in foreclosure rose by 20 percent during the same period. New London County fared a bit better than the rest of the state, with foreclosure filings rising by 14.4 percent.

Top municipalities for foreclosures were Norwich, with 95, and New London, with 34. Colchester, Ledyard, Groton, Waterford, Uncasville, Pawcatuck, Niantic, Griswold, Jewett City, Lisbon, Oakdale, Lebanon, East Lyme and Stonington also recorded double-digit foreclosures.

New London County's foreclosure numbers rivaled those seen in 2010, at the height of the nation's housing crisis, when more than 1 million homes nationwide were seized by banks. The crisis occurred after the implosion of tens of thousands of high-risk loans known as subprime mortgages, which led to several years of declining real estate prices in a cascading effect that led to lower home prices, job declines and even more foreclosures.

David Falvey, a Groton-based bankruptcy attorney, added one more cautionary note for New London County residents. He compiled statistics showing that the number of Chapter 13 bankruptcies - the type intended to allow residents to save their homes - has declined precipitously in the region and currently is about half the state average.

"Chapter 13 has become 'obsolete' in New London County due to the economy and the terms and conditions of the mortgage agreements," he said in an email. "The problem is that people simply can't afford their mortgage payments."

Falvey said he is hoping to convince legislators, including U.S. Rep. Joe Courtney, D-2nd District, to revive bankruptcy-law legislation that would address his concerns.

Meanwhile, Connecticut continues to feel the effects of a foreclosure surge that will probably take at least a year to reverse, experts said. In New London County, one of every 79 housing units was in foreclosure in 2013, according to RealtyTrac, compared with one of every 74 homes statewide.

Another real-estate data provider, CoreLogic, released numbers last week showing that the Norwich-New London area's foreclosure rate was 3.7 percent in November, compared with 2.2 percent four years earlier. Data showed that local homeowners 90 days or more behind on their mortgages hit a height of 7.6 percent in February of last year, and distressed properties were still hovering around 7 percent toward the end of 2013.

Julie Savin, Mystic-based director of real estate development for NeighborWorks/New Horizons, said she has seen a few positive signs in her efforts to get banks to donate properties that have gone through foreclosures. Bank of America, for instance, agreed to give her nonprofit low-income housing organization a house at 111 Connecticut Ave. in New London so that it could be turned into above-standard housing rather than bought by "bottom-feeders" who likely would put minimum effort into improving the property.

"My sense was that larger banks have finally gotten it together," Savin said. "Their carrying costs (for insurance, taxes and maintenance) were astronomical."

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