Foreclosures In Maryland

Interpreting the Data

Introduction

One of the most obvious effects of the severe downturn in the housing market several years ago has been the increase in foreclosures in almost every state. This has given rise to greater interest in foreclosure information by the media, when statistics are released by various entities that track housing information. Not surprisingly, when dealing with complex information in processing data, this recent focus on foreclosures has also resulted in misunderstanding and even misinterpretation about what foreclosure statistics say about a local or state housing market.

This paper explains how Maryland data from two major sources are collected, why they may significantly differ from each other, and the trends that may affect future rates of foreclosure in the state.

Primary Sources

One of the most widely reported sources of foreclosure data is the monthly report issued by RealtyTrac, a privately-owned real estate information company, that includes state and national information and receives widespread media coverage. RealtyTrac compiles foreclosure information from public records such as county courthouses, announcements from newspapers and banks, sheriff postings and local, state and federal agencies.

The Maryland Department of Housing and Community Development (DHCD) also releases foreclosure and delinquency rate information for the state. DHCD’s data receives less widespread coverage, primarily because it covers only the state, and possibly because its reports have a longer delay in release that RealtyTrac’s. DHCD uses RealtyTrac’s state data, but does more extensive analysis by filtering its data for duplicate addresses, auctions and REO bank-owned property to produce cleaner, more accurate information.

Two additional sources of data are the Mortgage Bankers Association (MBA) National Delinquency Survey, and CoreLogic. The MBA National Delinquency Survey is based on data from a sampling of over 41 million mortgage loans which are serviced by banks, credit unions, mortgage companies and other financial institutions. The MBA data base provides information on delinquency and foreclosures rates based on the type of loan—prime, subprime, FHA, VA.

CoreLogic provides data on business analytics on a wide variety of industries, from automotive to multifamily to insurance. One of CoreLogic’s subject areas is the mortgage
industry, including Case-Shiller Home Price Indexes, and its monthly reports on foreclosure data. CoreLogic’s uses its immense data collection activities to create solutions like loss prevention analysis for professionals in the industry.

**Data Differences**

As indicated above, foreclosure data from RealtyTrac and DHCD sometimes appear to conflict. For example, the July 2013 RealtyTrac release reported a startling 275 percent increase in year-over-year foreclosures in Maryland (as compared to July of 2012), making Maryland second only to Florida in the increased rate of foreclosures over that time period. DHCD’s July data, however, released several weeks later reported a significantly smaller increase of 148.2 percent.

The reasons behind the apparent discrepancies that sometimes appear in two different data sources are several. As stated earlier, unlike other sources, DHCD filters its data for duplicate addresses, auctions and REO bank-owned property, to produce an accurate, and more likely lower foreclosure rate. The process also delays release of the DHCD data.

Another factor than can cause misinterpretation of data is that Maryland, along with 24 other states, is a judicial foreclosure state. That means that all foreclosure activities must be processed by local courts, rather than by lenders or other lien holders, which is a more time-consuming process. In 2010, Maryland’s General Assembly passed a foreclosure prevention law adding a mediation option to the state foreclosure procedure. This allows borrowers to address and confront their lenders about issues specific to their case, which can help borrowers avoid foreclosure but can also delay the judicial process.

While these consumer protections are important to borrowers, they also are a factor in the creation of a “shadow inventory,” a term that describes seriously delinquent loans that have yet to start the foreclosure process. Shadow inventories include (i) properties with loans more than 90 days past due; (ii) properties administered by mortgage servicers, but not included in the multiple listing services because the foreclosure process has not been completed and (iii) foreclosed properties owned by mortgage lenders. This inventory of properties in various stages of the foreclosure process creates an enormous backlog until the process is completed and lenders release those properties into the market.

Maryland’s judicial foreclosure is a lengthy process---the filing timeline is set by the circuit court, typically 90 days or more. The timeline is also affected by the amount of work the mortgage loan servicer has done in preparation for the filing of foreclosure action in court. Once the filing occurs, the mortgage company must review the homeowner’s situation to see if he or she qualifies for loan modification or other foreclosure prevention programs. This process is called a loss mitigation analysis. The homeowner has 15 days
after the filing to request a loss mitigation analysis. The homeowner can also request foreclosure mediation if the home is the primary residence. The entire process can result in a course of action that can take 185 to 213 days.

This long timeline has had a real impact on the trend of Maryland’s foreclosure data. Maryland lagged behind other states in dispatching foreclosures because the properties were so slowly processed through the lenders’ loss mitigation system and the courts. Inevitably, it resulted in a statistical surge between July 2012 and July 2013.

The statistics collected by RealtyTrac are culled from public sources without any further handling of the information. While this information is an important source from generally dependable public records, it is still “raw” data that has not been subject to the process that DHCD uses to eliminate duplicate or misleading information. DHCD’s further analysis results in a more reliable data base of foreclosure information.

**Foreclosure Trends in Maryland**

The second quarter 2013 data from the Mortgage Bankers Association’s National Delinquency Survey revealed that the overall loan delinquency rate nationally has declined to its lowest rate in five years. The decline resulted from a reduction in the pool of over 90-day delinquencies—loans classified as “seriously delinquent,” or likely to move to foreclosure--which is at its lowest level in four years. In fact, Maryland’s delinquency rate has declined for eleven quarters, and the state now has the second largest decline in over 90-day delinquencies countrywide.

As the table below indicates, short term and long term delinquencies in Maryland have posted year-over-year declines since the fourth quarter of 2010.
Maryland is following the recent trend in national data for a decline of seriously delinquent loans. CoreLogic’s August National Foreclosure Report shows seriously delinquent mortgages have declined to $2.1 million of the total value of loans in that category, the lowest amount since November of 2008. Consequently, the national “shadow inventory” declined 22 percent in July, to 1.9 million homes, from 2.4 million in July 2012. Presently, “shadow inventory” represents a supply of only 3.7 months, compared to 6 months supply at the same time last year. Nationwide, completed foreclosures have declined by 34 percent, a number influenced greatly by states with speedier, non-judicial foreclosure processes. Once the states with judicial foreclosure processes move through their backlog, the number of completed foreclosures will rise and more homes will be added to the inventory of homes for sale by lenders.

**Median Home Sales Price and Foreclosures are Trending Together**
Now that the real estate market has shown consistent signs of recovery, with the number of units sold monthly increasing from the previous year since February of 2012, lenders have greater incentive to process the backlog of lender-held foreclosed properties and severely delinquent loans, yielding a sizeable increase in the available inventory of homes-for-sale. Evidenced by increasing sales and rising prices, economists anticipate that the backlog of inventory will be quickly absorbed into the market.