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Foreclosures expected to soar

Analysts predict waves of home defaults in Middle TN

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Broker Jim McCormack, in the kitchen of a foreclosed home he purchased in Antioch, thinks the deeply discounted sale prices of foreclosed properties reveals how exaggerated home prices were during the boom times. / Samuel M. Simpkins / The Tennessean

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Buyers hoping to pick up a [bargain](#) on a foreclosed home won't have much luck in Green Hills or Belle Meade, where only a few dozen borrowers defaulted last year.

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But homes by the hundreds faced foreclosure during 2011 in Antioch and a few neighboring ZIP codes, creating potential opportunities for deal hunters.

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And if predictions hold up, there will be no shortage of deals in 2012.

Amid growing signs that foreclosures have tapered off and the local housing market is recovering, it now appears that another string of foreclosures could hit Middle Tennessee.

The foreclosure reprieve has offered a false sense of confidence to the local housing market, according to real estate analysts, since several factors expected to come together in 2012 may trigger a

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Broker Jim McCormack shows a 2,400-square-foot foreclosed home he purchased in Antioch, one of the Nashville's hardest-hit areas. / Samuel M. Simpkins / The Tennessean

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rash of new foreclosures.

In 2011, about 11 percent of [home](#) sales in the Nashville metropolitan area were foreclosure-related, a slide of almost one-third from the previous year.

To be sure, the national foreclosure rate was about double that of Middle Tennessee, according to Irvine, Calif.-based research firm RealtyTrac.

"2011 was a fantasy land in that the market was not dealing with a lot of the distressed properties," RealtyTrac's Daren Blomquist said.

"We believe waves of foreclosures are coming. Not one wave, but a series of waves, which will probably put the lid on any home appreciation we have seen."

Home foreclosure rates around the country and in Middle Tennessee have slowed in recent years after evidence emerged that some lenders were forging documents to hasten filings.

Although single-family home sales have been up year over year for the past eight months, median home prices faltered in 2011 after showing strength for most of 2010.

The volume of new foreclosures, projected to rise 15 percent this year, is expected to be significantly smaller than during the housing collapse of some five years ago. Still, the ripple effect on the local housing market could further drive down home prices and dampen consumer confidence, experts say.

Hardest hit areas

Despite the region's falling foreclosure filings overall, Antioch, La Vergne, Nolensville and portions of southern Williamson and Rutherford counties were still hit hard last year. Foreclosure filings include mortgage defaults, auctions and bank-owned sales.

Some working-class communities in Middle Tennessee were grossly overbuilt in the run-up to the housing bubble, and the borrowers in those neighborhoods did not have the wherewithal to cushion the blow of the housing market's near collapse, according to Middle Tennessee State University economist David Penn.

"The [affordable](#) areas south of Nashville had a lot of sales during the boom years," said Antioch investor Bill Hostettler of HND Realty. "The lower income brackets get hurt the worst. They don't have a six-month reserve built in their lives."

Antioch's 37013 ZIP code saw 605 foreclosure filings in 2011, or one out of every 43 homes. While that was one of the area's highest foreclosure rates, it still represented a decline of nearly 40

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percent from the previous year.

Kendra Cooke, president of the local Realtors association, said the next wave of projected foreclosures could spur more sales, which have gained steam in recent months. "Many foreclosures and short sales create a buying opportunity," Cooke said.

But Cindy Stanton, distressed property seller with Crye-Leike in Nashville, said that when a foreclosure sells, it sets off a negative sales cycle.

A foreclosure sale blights home values for comparable properties in the neighborhood, Stanton said.

"Once it starts to decline, it's hard to recover. The depreciation of home values has a snowballing effect."

40% markdown

Bank-owned homes in Middle Tennessee have been selling at an average markdown of nearly 40 percent from their original purchase prices, which is among the country's deepest [discounts](#), according to RealtyTrac.

In 2011, there were 864 bank-owned homes sold in the Nashville area, one of the highest numbers in the Southeast.

"We've seen the biggest discounts in metro areas where there's a lot of older inventory," Blomquist said. "Those properties need more repair work and rehab than your typical property," perhaps offsetting the low price, he said.

But local foreclosure expert and short-sale specialist Jim McCormack thinks the price declines reveal how exaggerated home prices were during the boom times, not how Middle Tennessee is flush with bargain deals.

"The original purchase prices back then were phony," he said.

Aaron Armstrong, a distressed-property expert with Nashville-based Keller Williams, said prices could fall further.

"We're not through the thick of it yet," he said, referring to the area's foreclosure supply. "And as banks continue to release this inventory, it's going to affect pricing."

15% are underwater

Jesse Hamby, who worked for a local subprime lender at the height of the housing bubble, said he understands why foreclosures have lingered.

Communities were swiftly building homes for borrowers who were taking out no-money-down mortgage [loans](#), he said. For years, borrowers never touched the principal balance and instead chipped away at the loan's interest.

Some of those fixed rates Hamby saw in 2007 will expire this year, leaving homeowners with depreciated home values from overbuilt neighborhoods. Many end up with little to no home equity.

"Some people don't realize they're underwater until their homes are

appraised," he said.

"Every Saturday, you couldn't traverse the roads without seeing moving vans. People couldn't afford those properties, but they weren't savvy enough to understand that," he said, describing the Villa at Concord Place subdivision in Brentwood.

By the end of 2011, about 48,000 residential properties in Middle Tennessee, or almost 15 percent of all properties, were underwater, meaning borrowers owe more on their mortgages than their properties are worth, according to Mark Fleming, an economist with data tracker CoreLogic, who characterized it as a "significant foreclosure pipeline."

Furthermore, an additional 25,000 properties were nearly underwater, according to CoreLogic's latest report.

Drawn-out process

A settlement reached in February involving state attorneys general and big mortgage servicers has been closely watched by real estate professionals. Under the plan, the country's largest lenders must revamp mortgage-servicing practices, allowing for foreclosures in some states to flush out an oversupply of distressed properties.

Although Tennessee is not a state in which banks are required to sue a borrower to initiate a foreclosure, lenders have moved resources to states that require court action, which has protracted the foreclosure process in places like Tennessee, according to real estate experts.

In addition, a state law that took effect in September 2010 requires banks to give borrowers a longer foreclosure notice window, granting the borrower 60 days to act before a public notice is published, which used to happen immediately following a delinquency, according to Memphis-based attorney Matt McDonald with RealtyTitle.

"Foreclosures in Tennessee happen pretty quickly. This was the state's attempt to negotiate something short of a foreclosure," McDonald said.

The new state rules lengthened foreclosure processing time for many lenders that were adjusting to the new requirements. But now it appears that banks are catching up, according to RealtyTrac's Blomquist.

Loans available

Tennessee state was given \$217 million last January as part of a federal loan program for high-unemployment states that may have a disproportionate number of borrowers facing foreclosure.

The loans, which can be up to \$20,000 in Davidson County, carry no interest, and if the homeowner stays in a home for five years, the loan is forgiven. If the borrower sells or refinances before the five years, the loan is forgiven at a rate of 20 percent a year.

So far, nearly 1,200 loans have been given out, according to Patricia Smith of the Tennessee Housing Development Agency.

Smith said there are many other resources in Middle Tennessee for borrowers who are facing distressed mortgage situations. "Many of our programs are free, and they can be a huge help to a lot of people."

Highest foreclosure rates

ZIP	City	Foreclosures	Rate*
37201	Nashville	12	32.6
37128	Murfreesboro	316	30.2
37086	La Vergne	297	28.9
37135	Nolensville	50	25.5
37013	Antioch	605	23.4
37228	Nashville	0	0
37118	Milton	1	1.9
37215	Nashville	24	2.1
37150	Red Boiling Springs	6	2.6
37205	Nashville	37	3.0

Source: RealtyTrac

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