

BANKRUPTCY BLOG

Is There a Tsunami of Consumer Foreclosures and Bankruptcies Coming?

AUTHOR: SCOTT GREENBERG

Pandemic-related mortgage bailouts are ending and foreclosures have started to rise. However, does this mean there will be a tsunami of consumer bankruptcies and foreclosures? Some experts think not. Foreclosure starts jumped 32 % in the third quarter of 2021 over the prior quarter and were 67% higher than they were in the third quarter of 2020. However, many experts believe that foreclosure numbers will stay relatively low (as compared to historical averages) because of aggressive modifications by lenders and high levels of home equity.

While the increases in foreclosures in the third quarter of 2021 are substantial, historically that number would be around 40,000 per month, whereas in the third quarter of 2021, just slightly over 25,000 foreclosures were started. Hence, although they are increasing, they are still well below historical averages. There are many reasons for this, but analysts cite to the fact that lenders are aggressively seeking modifications of loans rather than foreclosing. Also, during the financial crisis in 2008 when homes fell into default, borrowers were often unable to sell their home because they were “under water” and had no equity. Conversely, home prices are historically high right now and many borrowers have equity in their home and are able to sell it to avoid foreclosure.

What about bankruptcies? With foreclosures historically being a large driver for consumer bankruptcy filings, fewer foreclosures (along with several other factors including historically low interest rates) have driven consumer bankruptcies to hit a 30-year low. Although one can assume consumer bankruptcy filings will rise again as foreclosures increase (or interest rates rise), many experts believe it will not cause a tsunami of consumer bankruptcies in the near term.

For assistance with modifications, forbearance agreements and workouts, in addition to claims in bankruptcy, please contact Scott Greenberg at 314.446.4277 (sgreenberg@sandbergphoenix.com) or Sharon Stolte at 816.627.5543 (ssolte@sandbergphoenix.com).