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A wave of foreclosures is coming. Here's what that could look like.

As a federal moratorium gets set to expire, experts fear many homeowners could lose their residences.

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While people who kept their jobs throughout the pandemic have participated in a dizzying real estate market, the flip side of that coin is the homeowners who have barely hung on through unemployment or significant loss of income.

A federal moratorium on foreclosures, one of the measures designed to keep people from losing their homes at a time when staying home was fundamental, is due to expire in June. Though it has been extended several times, at some point it will go away, as will lenders' forbearance programs that allow homeowners to delay payments until the crisis is over.

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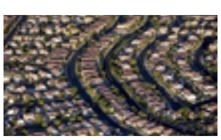

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Will that be tantamount to opening the floodgates and letting a new surge of foreclosures through?

"It's not going to be good, but it's not going to be on the scale of the Great Recession," says Geoff Smith, executive director of DePaul University's Institute for Housing Studies, who has been on the foreclosure beat before the housing crash and recession of the mid-2000s.

It's likely not going to be good in Chicago. All six counties in the metro area are among the 10 percent of U.S. counties "most vulnerable to the economic impact of the pandemic," according to Attom, a California property data firm.

Attom's report took into account the proportion of households at risk of foreclosure, the proportion that owe more on the mortgage than the house is worth and the cost of homeownership relative to average local wages.

Black Knight, a mortgage and real estate data firm, reported April 21 that 1.9 million U.S. households with a mortgage were at least 90 days late on their payments. That's five times the number who were past due on the eve of the pandemic.

"We're not going to call it a crisis. That's an extreme term that won't apply," says Ryan Smith, director of foreclosure sales at ReMax Properties based in Western Springs. He's been selling foreclosures since 2004 and was the top seller of foreclosures in Illinois in 2019 and 2020. He forecasts that between 2.5 and 3 percent of homeowners will default after the moratorium lifts. That's compared to 5 percent in 2007-08, he says.

Prior to the pandemic, "we were at 0.9 percent, very healthy," he says.

Among the reasons to expect a smaller wave:

- The lending industry's standards are far tighter than they were before the last crisis—largely as a result of that crash, Geoff Smith says.
- Everyone who owns a house rides fast-rising home values upward. The ability to sell in an up market, which wasn't an option in the down market that followed the mid-2000s housing crash, might net proceeds that behind-on-payments homeowners could use to make the debt whole on their way out. That's a brighter exit than foreclosure.

Nevertheless, both men say it's appropriate to brace for impact.

Ryan Smith says one tool used to keep people in their houses might, as the law of unintended consequences dictates, wind up turning some of them out of their homes later.

Mortgage forbearance does not wipe out the homeowners' mortgage debt; it merely lets them take a break on payments, with the total debt still to be paid down the line. "The longer they stay in forbearance," Ryan Smith says, "the more they're going to need to pay it off later." If homeowners calculate that the sum of the delayed payments is greater than their equity stake in the home—a possibility for people who bought only a few years before the pandemic, he says—they may decide to let the house fall into foreclosure and walk away.

A wave of foreclosures would mean not only displaced homeowners, but eyesores and possible hazards for their block or neighborhood. It would also lead to logjams in courts in Illinois, which, as a so-called judicial state, requires foreclosures to go through the court system. In nonjudicial states, the foreclosure is strictly a private business transaction—and faster.

With salaries rising slower here in recent years than in boom cities like San Francisco and Austin, "owners likely have less money and fewer resources to stay up to date on mortgage payments if they lose jobs or face other financial issues like large medical expenses," Attom's chief product officer, Todd Teta, tells Crain's in an email.