



Why The Wave of Foreclosures Will Not Happen

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Almost weekly, I hear talk about the wave of foreclosures that will hit the market as things slow down. This may be true in other areas of the country, but at least locally, there are some compelling reasons why that is just not going to happen.

In 2007-2012 during the time of the great recession, the largest recession America has seen since the great depression, we did have a wave of foreclosures almost to tsunami levels. At that time, national residential inventory levels were almost double what they had been in the six years leading up to the recession. Even here locally, municipalities were approving subdivisions like crazy and builders and developers were doing their best to keep up with the swift demand. What was driving the demand? In part, the unscrupulous lending practices of the early 2000s which allowed for 100% financing with absolutely no qualifications other than a good credit score. It sounds ludicrous, but it is true. If you had a credit score above 680 you could receive 100% financing with absolutely no proof that you could pay back the loan. You can see the recipe for disaster as the economy turned and headed into recession. Americans had achieved the American dream of home ownership but with little equity. Many Americans were upside down on their loans and if they needed to move or hit personal or financial hardship and had to sell, they were faced with bringing thousands to the closing table to sell their homes. Consequently, many let their homes go into foreclosure.

Fast forward to today. According to the Board of Governors of the Federal Reserve System, Americans have not had as much equity in their homes since the 1980's. A CoreLogic analysis in the first quarter of 2022 showed that US homeowners with mortgages saw their equity increase by a shocking 32.2% year over year! CoreLogic cites that the average home equity gained between Q1 2021 and Q1 2022 was \$64,000. For Colorado, that average was \$92,000. Even if a homeowner has to sell for personal or financial reasons and even if the market corrects in the latter part of 2022, the vast majority have so much equity in their homes, they will still cash out big at the closing table.

What about people that just purchased in the last twelve months? Wouldn't they be subject to foreclosure if they need to sell their home? As a seller's agent, I was the one who sifted through the multiple offers on listings to prepare the multiple offer spreadsheets. When sellers had three or more offers to choose from, they would generally choose the offer that was either cash or one where the buyer had significant money down. In other words, those buyers that were fortunate to beat out their competition on a home were the buyers in the strongest financial position to begin with. It is unlikely those buyers will be in a position of foreclosure in the future. There will be exceptions for buyers who purchased homes with low money down loans such as FHA or VA at the height of the market. This is most common in new construction as builders were one of the few sellers who would accept low money down loans, however, those will be few and far between.



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