Merrimack Valley housing report

An e-publication of UMass Lowell and the Middlesex North Registry of Deeds

University of Massachusetts Lowell

MIDDLESEX NORTH REGISTRY OF DEEDS

NORTHERN ESSEX REGISTRY OF DEEDS

Volume 7, Issue 10 October 2013

Negative Equity Towns

By Victoria Cote

A study conducted by Zillow, a real estate research website, discovered that the national average for negative equity in the second quarter of 2013 is 23.8%. This is a significant decrease from the previous level of 30.9%. In the last issue of the Merrimack Valley Housing Report, we reported that negative equity percentages were higher than the national average in the regions larger cities, so in this issue we are focusing on smaller towns in that area.

The negative equity data from 2012 is unavailable; therefore it is difficult to determine the change in the negative equity. With that obstacle, we only examined the values from the second quarter of 2013. All of the towns studied have negative equity rates lower than the national average. This implies that many of the area towns are doing much better, in terms of housing values, than Merrimack Valley cities and other areas of the country. The one exception to this is Dracut, whose negative equity is only 3 points less than the national average. This town is following more closely the national average, much like the larger cities studied previously.

As stated earlier, it is difficult to assess the region over time as we lack any data from previous years. This means no assertion can be made as to any change in the regional home value. However, it is clear that many small towns have average negative equity rates which fall far below the national average, indicating that many regional communities are doing well in comparison to the nation as a whole.

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Deeds, Mortgages, Foreclosures and Orders of Notice Recorded

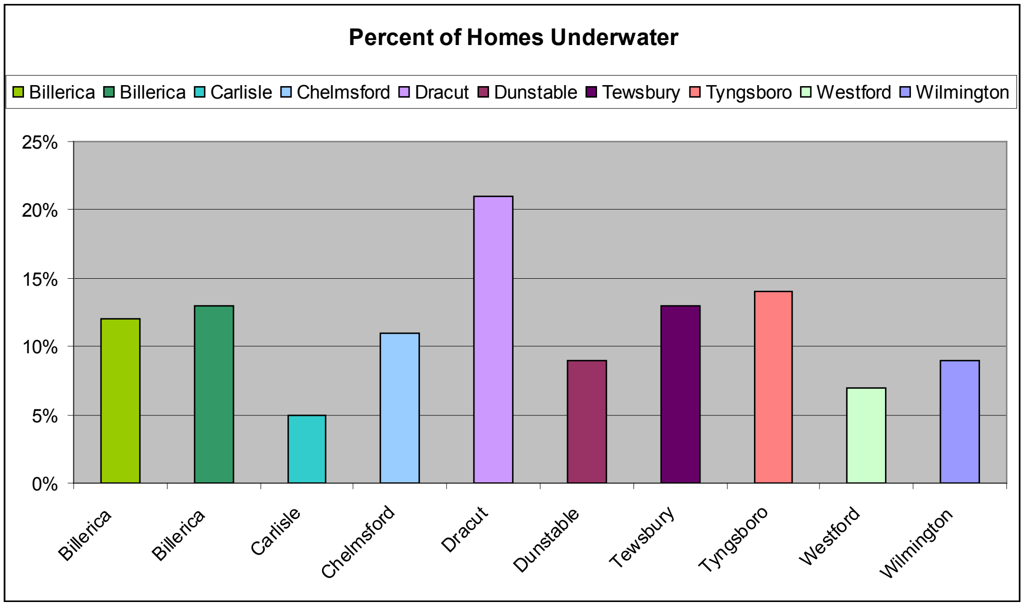
August 2012 and August 2013 compared

	Haverhill		Lawrence		Lowell		Methuen	
	Sept-12	Sept-13	Sept-12	Sept-13	Sept-12	Sept-13	Sept-12	Sept-13
Deeds	92	112	42	81	107	139	88	57
Mortgages	168	138	107	122	230	218	189	122
Foreclosure Deeds	4	5	6	6	13	4	7	3
Orders of Notice	12	6	24	6	8	3	16	2

Negative Equity Towns Continued

Town	Zip Code	% of Homes Underwater
Billerica	01821	12%
Billerica	01822	13%
Carlisle	01741	5%
Chelmsford	01824	11%
Dracut	01826	21%
Dunstable	01827	9%
Tewsbury	01876	13%
Tyngsboro	01879	14%
Westford	01886	7%
Wilmington	01887	9%

http://www.zillowblog.com/research/



Foreclosure Legislation and Short Sales

By Richard P. Howe Jr.

A Greater Lowell sales market that showed signs of vigor earlier in the summer slowed somewhat in August and September. The number of deeds recorded for the entire registry district dropped from 688 in July to 639 in August to 575 in September. The number of mortgages recorded has dropped similarly from 1279 in July to 1085 in August to 964 in September.

The good news is that for the most part, foreclosures have gone down similarly. One reason for that is the increasing incidence of lenders assenting to short sales. A “short sale” occurs when the seller owes more on the mortgage than the house is worth. Since a buyer will only pay fair market value for a property, the seller would normally have to have cash in addition to the proceeds of the sale to be able to pay off the balance of the mortgage. Few buyers are able to do that so such sales typically do not occur. In a “short sale”, the lender agrees to release its mortgage upon receipt of less than the full amount owed, typically whatever amount is received on the sale of the property. The lender and the seller may have a side agreement requiring the seller to pay some or all of the deficiency over time although that new debt would not be secured by any interest in real estate.

While it is impossible to determine with absolute certainty from registry records that a transaction is a short sale, it is likely the case when the sales price is substantially less than what the seller paid for the property in the first place. For example, three Lowell sales in September involved prices suggestive of short sales: One property that sold for $600,000 had been purchased in 2005 for $825,000; another that sold for $219,000 had been purchased in 2006 for $315,000; and a third that sold for $102,000 had been purchased in 2006 for $185,000. There were many others.

From the collapse of the real estate market in 2007 up until just recently, short sales were rare. Instead, those who owed more on a mortgage than the property was worth were stuck in the property with foreclosure as the only alternative.

One explanation for the substantial increase in the number of short sales was the enactment in November 2012 of Massachusetts General Laws chapter 244, section 35B.

Forclosure Legisaltion and Short Sales (continued from page 3)

This statute requires a lender who desires to foreclose to first compare the likely outcome of a foreclosure with the consequences of a modified mortgage. Here is the relevant language:

(b) A creditor shall not cause publication of notice of a foreclosure sale, as required by section 14, upon certain mortgage loans unless it has first taken reasonable steps and made a good faith effort to avoid foreclosure. A creditor shall have taken reasonable steps and made a good faith effort to avoid foreclosure if the creditor has considered:

(i) an assessment of the borrower's ability to make an affordable monthly payment;

(ii) the net present value of receiving payments under a modified mortgage loan as compared to the anticipated net recovery following foreclosure; and

(iii) the interests of the creditor, including, but not limited to, investors.

While nothing in this statute requires a lender to either modify a loan or to assent to a short sale, the relative newness of this statute and the corresponding lack of experience may have caused lenders to be excessively cautious when it comes to commencing foreclosures. Whatever the case, having numerous properties that were previously underwater now in the hands of new owners with more affordable mortgages is a positive development for local real estate notwithstanding the end of the summer slow down.

The *Merrimack Valley Housing Report* is published by
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This project is funded in part by the Office of the Chancellor and the Office of Outreach. UMASS LOWELL

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