Republican-American 10/16/2009 Page D01

State foreclosures up 10%

Expert forecasts another wave of defaults

BY MARC SILVESTRINI
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While foreclosure filings in Connecticut increased in the third quarter of the year, they aren't rising as fast in the state as they are across the rest of the nation.

But that could change in the next few months, as a new wave of variable-rate mortgages reset, according to a local expert.

Third-quarter foreclosure filings — which include default notices, auction sale notices and bank repossessions — increased by 10 percent in Connecticut from the third quarter of 2008, according to data compiled by Irvine, Calif.-based RealtyTrac Inc. Foreclosure filings in the state increased 69 percent in the third quarter compared with the second quarter.

In all, 5,113 properties in Connecticut received a foreclosure filing in the third quarter, which means one in every 281 households in the state received a filing during the three-month period. The state, which had the eighth highest foreclosure rate in the nation as recently as January 2008, is now ranked 25th.

Nationally, foreclosure filings jumped to 937,840 during the quarter, a 23 percent increase from the third quarter of the previous year. Across the

See **HOUSES**, *Page* **2D**

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HOUSES: 2nd wave of foreclosures forecast

Continued from 1D

nation, one in every 136 households received a foreclosure notice during the third quarter.

Six of the 50 states — Arizona, California, Florida, Illinois, Michigan and Nevada — accounted for 62 percent of the nation's total foreclosure activity in the third quarter, with 579,541 properties in those states receiving foreclosure filings. California alone, with 250,054 foreclosure filings, accounted for nearly 27 percent of the nation's total.

Nevada, where one in every 23 households received some form of foreclosure notice during the quarter, had the nation's highest third-quarter foreclosure rate, while Vermont, where one in every 5,023 households received a notice, had the lowest.

Eugene S. Melchionne, a Waterbury-based attorney who specializes in bankruptcy cases, said neither the national nor state foreclosure numbers were particularly surprising.

Melchionne, who was recently interviewed by the CBS Evening News for a story on the failure of mortgage modification programs to address the national mortgage foreclosure problem, added he fully expects the numbers to get worse in the coming months because many of the variable-rate mortgages taken out in the past five years have yet to encounter their first interest-rate reset period, which in many cases occurs only after the first three to five years.

"The first wave of mortgage defaults were caused by variable-rate mortgages that reset after being fixed for two years, resulting in severe sticker shock for a lot of borrowers out there," he explained. "Now we're going to be seeing mortgage rates reset on those subprime loans that had fixed rates for a three- to five-year period.

"The problem over the next year or so is that you're going to have a new wave of variable-rate mortgages resetting in combination with an economy that has a lot of people either losing their jobs, losing their overtime, or getting their hours cut," he said.

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