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California foreclosure activity declines

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- **Q1 sees 40.2 percent drop**
- **Central Valley declines by 39.2 percent**

Lending institutions started formal foreclosure proceedings on fewer California homes last quarter, according to figures compiled by MDA DataQuick, a realty information company based in La Jolla.

But it is unclear how much of the drop can be attributed to shifts in market conditions, and how much is because of changing policies, it says.

Statewide, foreclosure activity dropped by 40.2 percent compared to the first quarter of 2009. The Central Valley drop was 39.2 percent.

In the Central Valley, notices of default declined in every county:

- Sacramento, 4,686 NODs, down 35.4 percent
- San Joaquin, 2,390 NODs, down 43.4 percent
- Kern, 2,331 NODs, down 45 percent
- Fresno, 2,020 NODs, down 41.4 percent
- Madera, 347 NODs, down 53.2 percent
- Merced, 835 NODs, down 46 percent
- Tulare, 988 NODs, down 30.1 percent
- Yolo, 292 NODs, down 49 percent
- Stanislaus, 1,821 NODs, down 41.6 percent
- Kings, 174 NODs, down 25.3 percent
- Yuba, 243 NODs, down 38.5 percent

Figures for Butte County were not given.

Following a historical pattern, mortgages were least likely to go into default in Marin, San Francisco and San Mateo counties. The probability was highest in Merced, Stanislaus and San Joaquin counties.

A total of 81,054 Notices of Default were recorded at county recorder offices during the January-to-March period, says DataQuick. That was down 4.2 percent from 84,568 for the prior quarter, and down 40.2 percent from 135,431 in first-quarter 2009.

The year-ago number is the highest in DataQuick's statistics, which go back to 1992 for NODs. The quarterly average is 44,041, while the low of recent years was 12,417 in third-quarter 2004, when housing market annual appreciation rates were around 20 percent.

"Several factors are at play here and it's hard to know how they play into each other right now. A year-and-a-half ago the subprime loan mess was the black hole. Now, playing catch-up, is the financial distress households are experiencing because of the recession. Add to the mix shifting policy decisions, both by lending institutions and in public policy," says John Walsh, DataQuick president.

"We are seeing signs that the worst may be over in the hard-hit entry-level markets, while problems are slowly spreading to more expensive neighborhoods. We're also seeing some lenders become more accommodating to work-outs or short sales, while others appear to be getting stricter about delinquencies. It's very noisy out there," says Mr. Walsh.

The state's most affordable sub-markets, which represent 25 percent of the state's housing stock, accounted for 47.5 percent of all default activity a year ago. In first-quarter 2010 that fell to 40.9 percent.

California's mid- to high-end housing markets were more likely to have seen a rise in mortgage defaults last

quarter, though the concentration of default activity -- measured by defaults per 1,000 homes -- remained relatively low in those areas.

For example, zip codes statewide with median home sale prices of \$500,000-plus saw mortgage defaults buck the overall trend and rise 1.5 percent last quarter compared with the prior quarter, while year-over-year the decline was 19 percent (versus a 40.2 percent marketwide annual decrease), DataQuick says.

Collectively, these zips saw 4.5 default notices filed for every 1,000 homes in the community, compared with the overall market's rate of 9.3 NODs for every 1,000 homes statewide.

In zip codes with medians below \$500,000, mortgage default filings fell 5.8 percent from the prior quarter and declined nearly 43 percent from a year earlier. However, collectively these zips saw 10.5 NODs filed for every 1,000 homes - more than double the default rate for the zips with \$500,000-plus medians.

On primary mortgages, California homeowners were a median five months behind on their payments when the lender filed the NOD. The borrowers owed a median \$14,066 in back payments on a median \$330,147 mortgage, according to the DataQuick report.

On home equity loans and lines of credit in default, borrowers owed a median \$3,897 on a median \$64,422 credit line. However the amount of the credit line that was actually in use cannot be determined from public records, it says.

While many of the loans that went into default during first-quarter 2010 were originated in early 2007, the median origination month for last quarter's defaulted loans was July 2006, the same month as during the prior four quarters.

The number of Trustees Deeds (TDs) recorded, which reflect the number of houses or condo units lost to the foreclosure process, totaled 42,857 during the first quarter. That was down 16.1 percent from 51,060 for the prior quarter, and down 1.7 percent from 43,620 for first-quarter 2009. The all-time peak was 79,511 in third-quarter 2008.

In the last real estate cycle, Trustees Deeds peaked at 15,418 in third-quarter 1996. The state's all-time low was 637 in the second quarter of 2005, MDA DataQuick reported.

There are 8.5 million houses and condos in California.

On average, homes foreclosed on last quarter spent 7.5 months winding their way through the formal foreclosure process, beginning with an NOD. A year ago it was 6.8 months. The increase could reflect, among other things, lender backlogs and extra time needed to pursue possible loan modifications and short sales.

Foreclosure resales accounted for 42.6 percent of all California resale activity last quarter. It was up from a revised 40.6 percent the prior quarter, and down from 57.8 percent a year ago, the peak. Foreclosure resales varied significantly by county last quarter, from 13.8 percent in San Francisco to 67.7 percent in Merced.

At formal foreclosure auctions last quarter, an estimated 24.6 percent of foreclosed properties went to investors and others who do not appear to be lender or government entities, says DataQuick. That's up from an estimated 17.6 percent a year ago.

The lenders that originated the most loans that went into default last quarter were Countrywide (7,282), World Savings (6,459), Washington Mutual (6,371), Wells Fargo (5,204) and Bank of America (3,851). These were also the most active lenders in the second half of 2006, and their default rates were well below 10 percent.

Smaller subprime lenders had far higher default rates for that period: ResMAE Mortgage, Ownit Mortgage, Master Financial, First NLC Financial Services and Fieldstone Mortgage all had default rates of more than 65 percent of the loans they originated in the second half of 2006, says DataQuick. These and most other subprime lenders are long gone, it notes.

Most of the loans made in 2006 are owned or serviced by institutions other than those that made the loans. The servicers pursuing the highest number of defaults last quarter were ReconTrust Co., Cal-Western Reconveyance and NDEx West, MDA DataQuick reports.

MDA DataQuick is a division of MDA Lending Solutions, a subsidiary of Vancouver, British Columbia-based MacDonald Dettwiler and Associates.

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