



Increasing home prices help slow foreclosure rate

By **SAMANTHA HENRY**, The Daily Transcript
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Notices of default decline when homeowners feel the equity in their home is increasing, and home prices increase when foreclosures decrease, creating a situation where increasing home prices are partly the result and cause of fewer foreclosures.

"In 2013, there's going to be a major turnaround in the housing market from the standpoint of housing prices and more non-distressed homes on the market," said Alan Nevin, principal at **The London Group**.

Trustee deeds — the final step in the foreclosure process, transferring ownership from the delinquent borrower back to the lender or to a third party — were filed on 609 properties in October, 11.1 percent more than in September and 18.8 percent less than October 2011, according to the San Diego County Assessor's Office.

Notices of default (NOD) — which initiate the foreclosure process by registering that a borrower is in arrears of payment — fell 6.1 percent from September to October, and 46.68 percent from October 2011 to October 2012.

Lenders issued NODs to 1,164 borrowers in October, down from 1,239 in September and 2,183 in October 2011.

"When looking at when loans originated on foreclosures, you see a huge hump of loan originations between 2004 and 2006 working their way through the foreclosure pipeline — and they're just about done," Nevin said. "This is pushing the rise in prices."

Home prices increased 2 percent in the San Diego-Carlsbad-San Marcos market in September 2012 from September 2011, according to **CoreLogic** (NYSE:CLGX). With an increase of 8.4 percent, California ranked among the top five states with the highest home price appreciation.

Notices of default are a leading indicator, said Norm Miller, real estate professor at the University of San Diego with the Burnham-Moores Center for Real Estate. There are a number of reasons why the number of NODs has declined from last year, he said.

"The unemployment rate is down slightly from a year ago," Miller said. "Secondly, people in some of the markets have felt home prices have gone up. We know that when people are underwater or think they are underwater, there's a higher probability they're going to default and walk away from their mortgages. When they think they have some equity or a chance of equity, that lowers the default rate."

Miller believes the number of strategic defaults has decreased, which gives a more positive outlook on home prices, he said. Distressed sales sell for about 20 to 22 percent less than non-distressed sales, said Miller, for reasons such as, the home selling as is with no warranties, the stigma of a foreclosure, and the requirement to sell fast.

"If you're selling a normal home over one to three months or four to five months, you're going to generally get a higher price than a distressed home that needs to be sold in 30 days," Miller said.

The county has 90 ZIP codes, Nevin said, and the 609 foreclosures are spread out, showing a number of ZIP codes with fewer than 10 foreclosures.

The decline in distressed home sales is a leading indicator that home prices are going to stabilize, Miller said.

"Inventory numbers have shrunk. Under \$500,000, the inventory is fairly modest. Below \$300,000, it's even lower, and under \$200,000 there's about one month's worth of inventory. Anything in the lower price range is snapped up really quickly," Miller said.

A normal inventory is about six months of active listings, Nevin said. "The board is showing that for bank REOs, we're down to one-half month of inventory. Short sales are down to four-fifths of one month and non-distressed are at 2.9 months," Nevin said. "Inventory will go up with home price increases. More people who are not distressed will start putting houses on the market."

Miller expects to still see some distressed inventory in the form of REO sales due to **Fannie Mae** (OTC: FNMA) and **Freddie Mac** (OTC: FMCC) "periodically dumping" their inventories on the market.

Foreclosures have "noise" that influence when a bank "will fire a trigger to do a foreclosure," said Mark Goldman, a real estate professor at San Diego State University. Those foreclosures may be in the pipeline for a long time with timing influenced by factors other than market conditions.

"The notice of default, in my opinion, is a much stronger indicator. The bank is going to file the notice of default 90 or 120 days after the last payment. They have to start the clock, and they have an obligation to do so," Goldman said. "Most of the time, more than 95 percent eventually go to sale or short sale. It's an indicator of the health of housing equity, and it's a good sign for the market."

There are fewer foreclosures when banks realize there's a smaller loss when they cooperate with a short sale, Goldman said, but that factor doesn't affect the number of NODs, Nevin said.

"We know a lot of foreclosures have gone down because of the change to short sales. But that has no effect whatsoever on notices of default. It's true evidence of people being late on payments by 90 days or more. The inevitable decline is evidence that the market has bottomed out," Nevin said.