



Notices of default down 42.7% from August 2011

By **SAMANTHA HENRY**, The Daily Transcript
Monday, September 10, 2012

Notices of default are down from last month and last year, and local experts say this indicates an improving market.

“The notices of default are a somewhat more promising indicator that the market is improving, and there are less borrowers in distress with their property,” said Mark Goldman, a real estate professor at San Diego State University. “There are either not as many in distress or banks have been cooperating in alternative solutions — either short sales or loan modifications — to help people avoid going into default.”

Alan Nevin, principal at **The London Group**, said changes in the banking world are causing some of the numbers to decrease, including short sales becoming more prevalent.

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 608 properties in August, 11.8 percent higher than in July and 37.4 percent less than August 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 19.2 percent from July to August, and 42.7 percent from August 2011 to August 2012.

Once a property owner is 90 days late on a payment and goes into default, Goldman said it becomes “very, very difficult” to take the house out of default.

“Well over 90 percent end up in short sale or foreclosure,” Goldman said.

Virtually all loan defaults related to loans made prior to 2008 are working their way through, and there aren’t many left, Nevin said.

“This hasn’t happened everywhere. We’re seeing it in parts of the West Coast,” Nevin said. “San Francisco and Seattle have seen similar patterns. These markets have had a very strong uptick in employment, particularly professional employment, as have we. Part of it relates to the fact that we have people moving in that have good credit records and are able to buy homes. The entire realm of the housing market here is changing radically.”

The slight increase in trustee deeds may be a result of banks cycling through foreclosures now that the \$25 billion mortgage settlement has been in place for a few months.

“We’re starting to see the log jam created by the settlement break loose,” Goldman said.

Even with an 11.8 percent increase from July, Nevin said the number of trustee deeds is moving down.

“Trustees sales are at 608 — when things are really good, there are still 2-300 per month. It’s edging down to that,” Nevin said. “When the new Fannie Mae/Freddie Mac program goes into effect on Nov. 1, there’s going to be a massive move to short sales, which will dramatically reduce the number further.”

Notices of default are a more important indicator of how the market is than trustee sales, Goldman said, and he expects the number to decline as the economy improves.

“The rate of NODs is indicative of the strength of households and values of properties. When property values are higher, there are fewer foreclosures because people can sell if they have equity in the home,” Goldman said.

From 1997 to 2012, if home prices went up 5 percent in value per year, a home worth \$200,000 in 1997 would be worth \$395,000 today, according to Nevin. The median price today is \$360,000, Nevin said, and he expects it to hit \$395,000 by next summer.

“We, with ups and downs, averaged 5 percent per year with the median price increasing for a long period of time,” said Nevin.

Nevin said he expects the rest of the year to play out “really well.”

“Business is good and people are getting qualified,” said Nevin. “The only sticky part is getting the appraisals to match the sale prices. Because, as prices go up, appraisers are looking backwards — typically up to six months. Comps are at lower prices, making it harder for sellers to get higher prices. After maybe another six months, we’ll start seeing more and more homes able to get appropriate appraisals to get loans to close escrow.”