Foreclosures up 353% in San Diego County in 2007

by Emmet Pierce

SAN DIEGO - Setting dismal records, home foreclosures more than tripled and notices of mortgage default more than doubled in San Diego County in 2007.

DataQuick Information Systems reported Tuesday that foreclosures rose 353 percent to 7,349, while default notices - the start of the foreclosure process - increased 128 percent to 20,138. The numbers were the highest since DataQuick began keeping track of county foreclosures in 1988 and defaults in 1992.

The county's previous foreclosure record was 4,077 in 1996, when Southern California was in a housing slump caused partly by a decline in defense spending.

Today, the inability of borrowers to keep up with mortgage payments is putting downward pressure on median home prices, which have fallen 17 percent since the peak of the housing boom in November 2005.

The county ZIP code with the most foreclosures in 2007 was 91913, Chula Vista-East Lake-Otay Ranch, DataQuick reported. It had 301 foreclosures, compared with 55 in 2006.

Other ZIP codes in the county with more than 250 foreclosures were Spring Valley's 91977, Oceanside North's 92057, Nestor's 92154 and Chula Vista South's 91911.

Notices of default in December totaled 2,569, up 76 percent from November and up 137 percent from one year earlier. The number of December foreclosures was 987, up 106 percent from November and up 243 percent from December 2006.

November had seen a steep decline in the number of foreclosures from the previous month.

"We don't really know what is driving that fluctuation," DataQuick analyst Andrew LePage said. "It is too early to say if January or February will level off or build. I saw November as an anomaly."

Falling home values are "the main driver of rising foreclosures, coupled with risky home loans gone bad," LePage said.

Paul Leonard, California director of the Center for Responsible Lending, attributed the foreclosure spike to weak mortgage underwriting standards during the housing boom, when San Diego County home prices doubled between 2000 and 2005.

Leonard noted that many lenders have been forced out of business in recent months because of defaults on adjustable-rate mortgages. Too many loans were based solely on the applicant's ability to pay low, introductory "teaser" rates, he said.

"Apparently these lenders lost touch with the reality of the inevitable law of the housing market: 'Prices can't go up forever,'â€š" Leonard said.

Statewide, 254,824 notices of default were filed in 2007 - an increase of 143 percent from the previous year. Foreclosures rose 566 percent to 84,375.

Fewer Californians who receive notices of default are now able to fend off foreclosure.

"We estimate that about 41 percent of the people receiving an NOD (notice of default) statewide are avoiding an actual foreclosure, while 59 percent lose their homes to foreclosure," LePage said.

A year ago, about 71 percent were able to emerge from the foreclosure process by bringing their payments current, refinancing or selling their home, he said.

"With depreciation, we have prices rolling back further and further," LePage said. "In the worst-hit markets, prices are back to 2004 levels.

"For people who never had much equity to begin with, or have tapped into equity, there often is no way to refinance. They owe more than the house is worth."

While rising foreclosures are bad news for lenders and sellers, they're bringing increased affordability. People who sat out the fevered bidding of the housing boom are beginning to find deals among foreclosure homes.

Financial planner Marcus Frampton, 28, recently bought a house near the ocean on La Jolla Boulevard. The previous owner had bought the two-bedroom, 1,500-square-foot house in May 2006 for $1.35 million, Frampton said.

"For the past year, I have been looking at homes for sale," he said. "This one had an open house in June. They were asking $1.1 million.

"In October, I saw it was still on the market. My buddy is an agent. I asked him to offer $900,000. We ended up settling at $930,000."

Frampton worries about taking on too much debt, but he's convinced that he got a deal that will pay off over time. The sale closed at the end of November. Frampton, who had been renting a nearby apartment, said he knew prices would come down, but he didn't expect it to be this quickly.

"I thought it would take another year" to reach current levels, Frampton said. "I was surprised they took my offer. Because I had this opportunity, I jumped at it."

San Diego real estate agent Gary Kent began specializing in foreclosures when the housing boom wound down. In the past two years, he has sold 120 houses and condominiums for lenders who foreclosed on delinquent borrowers.

"The best deal someone got was about 15 percent under market value," Kent said. "On average, you will get 5 percent under."

There are some exceptional bargains, however. Kent has listed a foreclosed, one-bedroom condo in San Ysidro for $134,900. The 12-year-old condo sold for $283,000 in early 2005. Although the condo is in good shape, the area has an oversupply, Kent said.

While foreclosures have spiked, they remain a small part of the overall county market of 1.1 million housing units, said analyst Gary London of The London Group. People who bought before 2004 probably have adequate equity to avoid foreclosure, he said.

"I wouldn't be surprised if prices dropped another 10 percent this year, but the market can handle that because they went up so high," London said.

Stephen Levy, director and senior economist at the Center for Continuing Study of the California Economy in Palo Alto, Calif., predicts that prices in San Diego County will continue to drop.

Homeowners may have to wait two years to see prices rise out of a deepening trough, Levy said. "I think there (will be) more price correction to restore affordability."

The final three months of 2007 marked the 11th consecutive quarter of rising foreclosures in San Diego County, DataQuick analyst LePage said.

Union Bank senior economist Keitaro Matsuda said the bottom of the housing market is hard to predict "because of continued turmoil in the mortgage market. ... Eventually, there will be an upturn."

Roger Showley contributed to this report.