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Rising Foreclosures Chill an Already Cooled Home-Buying Market

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Home sales are down and foreclosures are up, according to reports released late last month by the California Association of Realtors and La Jolla-based DataQuick Information Systems.

CAR released a report July 25 declaring single-family detached home sales in the state decreased 24.7 percent in June compared to the same period a year ago. Sales also decreased 1.4 percent in June from a month earlier.

San Diego County did not see as large of a decline as neighboring counties. The local market showed a 17.5 percent decrease in the number of sales in June compared to June 2006, according to CAR. The Riverside and San Bernardino regions saw a 49.9 percent decrease and Orange County a 21.7 percent decrease for the same period.

“The focus on foreclosures and subprime lending is ongoing and, coupled with higher inventories of homes for sale, is prompting many would-be buyers to play a wait-and-see role,” said CAR President Colleen Badagliacco in the announcement to members.

In addition, lenders sent California home owners the highest number of mortgage default notices in more than 10 years last quarter, according to a report released by DataQuick on July 24. The high number of defaults, the first step in the foreclosure proceeding, was a result of flat or falling prices, anemic sales and markets struggling with the excesses of the 2004 and 2005 home-buying frenzy, according to DataQuick.

Lenders filed 4,400 notices of default in San Diego during the second quarter. That was a 147 percent increase from the 1,800 filed notices of default for the second quarter of last year.

Most of the loans that went into default last quarter originated between July 2005 and August 2006 with the median loan age of 16 months.

“A lot of the loans that went bad last quarter were made at or just beyond the cycle’s peak, between summer ’05 and summer ’06,” said Marshall Prentice, president of DataQuick. “Appreciation rates for most of that period were in the double digits and lenders let many households stretch their finances to the max and beyond. It is that pool of ‘beyond’ mortgages that the market is working its way through.”

Statewide Defaults

DataQuick also reported that on primary mortgages statewide in default, home owners were a median five months behind on payments when the lender started the default process. The borrowers owed a median $11,100 on a median $342,000 mortgage. On line of credit loans, homeowners were a median eight months behind on their payments. Borrowers owed a median $3,500 on a median $67,100 credit line.

More than half of homeowners in default bring their payment current, refinance, or sell to pay off what they owe, according to DataQuick. The fate of the other half is not so fortunate.

However, the growing number of foreclosures has created an opportunity for business. Bellevue, Wash.-based ForeclosurePoint entered the San Diego market last month to participate in the foreclosure real estate boom. With a large number of properties going into foreclosure each month in San Diego, there was a significant opportunity to bring new efficiencies to this market, according to Chris Matty, chief marketing officer of ForeclosurePoint.

“Given today’s complex process for purchasing foreclosure properties and market inefficiencies, 99 percent of home buyers, as well as real estate investors, are unable to participate in this market,” said Matty. “We are transforming the industry with innovation, opening up the foreclosure market to a much larger pool of buyers.”

ForeclosurePoint’s Web site, which launched a service in San Diego on July 17, provides benefits to individuals facing foreclosures and potential buyers. The site is not just a listing service; it is a tracking service. The site tracks sales schedules and provides auction details, title research, and offers financial-related referrals and guidance. There is free access to listings and a $79.95 monthly fee for more detailed tracking data, including monetary lien information and voluntary and involuntary lien position information that may be helpful when bidding at auction.

“San Diego is one of the hot spots in the U.S. in the number of foreclosures,” said Matty. “So San Diego was a natural market for us.”

Southern California Expansion

This is just the second market that ForeclosurePoint has launched in after King, Kitsap, Pierce and Snohomish counties in Washington state. ForeclosurePoint is expected to launch its service in Orange and Los Angeles counties during the next few weeks.

Matty said that because more than half of foreclosure auctions are rescheduled and fewer than 10 percent of auction listings are bid on, their resources may help improve the buy and sell process.

At press time, the Web site listed 6,300 properties in foreclosure in San Diego County and almost 9,400 in Riverside County.

In addition, ForeclosurePoint works with lending partners to provide buyers with short-term bridge financing to address the lack of traditional financing options available for auction purchases.

ForeclosurePoint is owned and operated by Bellevue, Wash.-based DepotPoint, a technology services company focused on the foreclosure industry.