Foreclosure rates rise across state, county

Contributed by Elizabeth Larson
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LAKE COUNTY – Foreclosure rates are growing across the country and California, and here in Lake County a new report shows that the number of people defaulting on their mortgages is increasing.

DataQuick Information Systems, a real estate information service, has reported that the number of default notices sent to California – and Lake County – homeowners last quarter increased to its highest level in almost 10 years.

That increase in foreclosures among the state's eight million homes and condos is attributed to flat appreciation, slow sales and riskier subprime loans, according to the report.

The report also noted that while foreclosure properties tugged property values down by almost 10 percent in some areas 10 years ago, the effect on today's market is negligible.

Foreclosure rates statewide jumped 148 percent in the first quarter of this year as compared with that period in March 2006, growing from 18,856 to 46,760.

Last quarter's default level was the highest since 47,912 Notices of Default (NoDs) were recorded statewide in second-quarter 1997, according to DataQuick.

Defaults peaked in first quarter 1996 at 61,541. An average of 33,847 NoDs have been filed quarterly since 1992, when DataQuick's NOD statistics begin.

Andrew LePage, a DataQuick spokesman, said in Lake County foreclosures in the first quarter of 2006 numbered 48, compared with 109 foreclosures in this year's first quarter, a 127-percent increase.

This year's first-quarter foreclosure rates are the highest recorded for the county since 1992, when DataQuick began tracking the information, said LePage.

The last big wave of foreclosure activity in the county appeared in the mid-1990s, he said.

Lake County's homeownership rate of 70.6 percent is higher than the state average of 56.9 percent, according to the US Census Bureau. The county's owner-occupied homes number 19,164, with the county's median home value listed at $255,300.

LePage noted Lake County's default rates have traditionally been “really low,” with a quarterly average of 41. In the third quarter of 2005, the county only had four foreclosures reported, he added.

He suggested that the growth in foreclosures likely correlates with a growing population.

LePage did not have a breakdown of foreclosures by the county's different communities.

The county's foreclosures appear to have started going up late last year, according to LePage. In the third quarter of 2006, foreclosures numbered 67, jumping to 102 the following quarter.

“When you have a slower market and not as much appreciation or no appreciation, that sets the state for rising foreclosure activity,” LePage explained.

In neighboring counties, the rates also have risen. Napa's foreclosures are up by 87 percent, and Sonoma's by 159 percent.

Risky loans a key

For people beginning to have financial problems who have little or no equity, those market characteristics make it much more difficult for them to pull out of a “financial tailspin” by refinancing, he said.

Home purchases statewide peaked in the summer of 2005, said LePage. Loans typically begin to go bad within the first year and a half, he said, and DataQuick's research shows that most of the loans that went into default last quarter were originated between April 2005 and May 2006.

Many risky subprime loans were being made at that time, said LePage. With foreclosure activity continuing to rise, he added, “It's probably telling us that some of the more creative financing and subprime financing is starting to fuel these numbers.”

On primary mortgages, homeowners were a median five months behind on their payments when the lender started the default process, DataQuick reported. The borrowers owed a median $10,784 on a median $331,200 mortgage.

Most homeowners emerge from the foreclosure process by bringing their payments current, refinancing, or selling the home and paying off what they owe. However, DataQuick's study found that about 40 percent of homeowners who found themselves in default last year actually lost their homes to foreclosure in the first quarter. A year ago it was nine percent.

Trustees deeds recorded, or the actual loss of a home to foreclosure, totaled 11,033 during the first quarter, up 81.5 percent from 6,078 for the previous quarter, and up 802.1 percent from 1,223 for last year's first quarter, according to DataQuick.

Foreclosure sales peaked at 15,418 in third-quarter 1996, and hit a low of 637 in the second quarter of 2005, DataQuick reported.

Lakeport attorney Steve Elias, a nationally recognized expert on bankruptcy who has written three books on the subject, said foreclosures and bankruptcy often go hand-in-hand.

Bankruptcy, Elias explained, slows down the foreclosure process, and in the case of Chapter 13 bankruptcy, it offers individuals the ability to repay overdue debts – along with current payments – over a five-year period.

He said he doesn't see many cases these days where people in bankruptcy actually lose their homes, with many managing to refinance or get extremely harsh “bridge loans.”

Bankruptcy, noted Elias, is a good way to let go of home rather than letting it be taken in foreclosure. That's because only the bankruptcy will show up on a credit report, not a foreclosure, he explained, which does less harm overall to one's future credit rating. Short sales, he added, can become a problem because the IRS counts them as taxable income.

Is the state at its foreclosure peak? “We don't think we're there yet,” said LePage, looking at the state as a whole, and noting that a peak would require conditions that would begin to seriously erode home values.

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