Dwindling housing supply helps push foreclosures lower

By SAMANTHA HENRY, The Daily Transcript
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San Diego County ended 2012 with 25 percent fewer notices of default and 41.1 percent fewer trustee deeds filed than in 2011.

There were 16,597 notices of default filed in all of 2012, down 25 percent from 2011, when there were 22,101 notices of default filed, according to the San Diego County Assessor's Office. And there were 7,195 trustee deeds recorded in all of 2012, down 41.1 percent from 2011, when there were 12,215 trustee deeds recorded.

Sean Mayer, principal at **Legacy Real Estate Ventures LLC**, said the number of NODs and trustee deeds in 2012 could have been limited by the problems that servicers and large banks had with the foreclosure process.

“As a company, Legacy saw that the product at courthouse steps was starting to 'dry up' toward the end of 2011. This led to fewer homes going to foreclosure, thus driving investors away from the courthouse steps and into the conventional acquisition marketplace,” Mayer said in an email. “Banks started taking a preference to short sales over foreclosures due to the pending litigation and likewise negative PR.”

Joe Bertocchini, director of residential real estate at the University of San Diego’s Burnham-Moores Center for Real Estate, said the change in the numbers has been caused by different factors in the housing market, including demand from investors who are “starved” because of a lack of supply in the market. This demand has driven prices up, creating a “feeding frenzy,” he said, and causing people to want to get involved in the market again.

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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 445 properties in December, 16.7 percent lower than in November and 50 percent less than December 2011, according to the San Diego County Assessor's Office.

“Trustee sales, for the most part, decrease during the winter period due to a robust vacation period for most real estate-oriented firms,” Mayer said. “2012 was an interesting year as many companies and families worked with their CPAs and legal counsels to properly utilize the gift exemption and likewise implement any estate planning strategies before taxes could reset. This caused an enormous amount of transactions to be completed in the last quarter of 2012.”

Notices of default (NOD) — which initiate the foreclosure process by registering that a borrower is in arrears of payment — increased 10.9 percent from November to December, and fell 38.3 percent from December 2011 to December 2012.

Lenders issued NODs to 978 borrowers in December, up from 882 in November and down from 1,585 in December 2011.

The scheduled expiration of the Mortgage Forgiveness Debt Relief Act may have left little incentive for underwater borrowers to pay their mortgages, Mayer said, causing notices of default to increase in December. The act was extended through 2013 as part of the "fiscal cliff" resolution.

Bertocchini said the increase in NODs could have been caused by people who were sitting on the fence and finally decided to start the process and go into default to get out of their current situation.

“A number of people realized that if they go through the process of having their credit damaged – if they want to get back in the market, they have to do it sooner rather than later,” Bertocchini said.

The lack of supply is driving prices up, creating a “reasonably priced” market that underwater borrowers may want to get back into after their credit is approved. Bertocchini said those underwater on their mortgages may see this as a better option compared to waiting for their home prices to increase.

“Their homes are so far underwater, to get back to where they need to be to break even, it will be such a long period of time,” Bertocchini said.

Bertocchini said in 2012 the housing market was “finally starting to see a recovery.”

“I think we’re going to see these numbers start to trail off and see fewer and fewer notices of default and trustee deeds in the next 12 months and beyond,” Bertocchini said. “If you look back over what we’ve endured over the last couple years with the market changing dramatically and going down the tubes, so to speak, we’re finally seeing that come to an end.”

Mayer said he and his company believe 2013 will be a “phenomenal year” for the housing recovery.

“Rates are still at historical lows, which will only fuel the housing recovery,” Mayer said. “We believe that 2013 will have more foreclosures than 2012 due to the resolution of 'robo-signing' with large banks such as Bank of America and Wells Fargo. These companies have shifted to short sales for their delinquent borrowers but still need to foreclosure on a decent amount of shadow inventory. In this market and housing environment, we will still see foreclosures, but not the onslaught we saw in 2008-2010.”

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