

# Schniepps' Real Estate and Mortgage News

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## Foreclosure Activity in Santa Barbara Highest in 13 Years

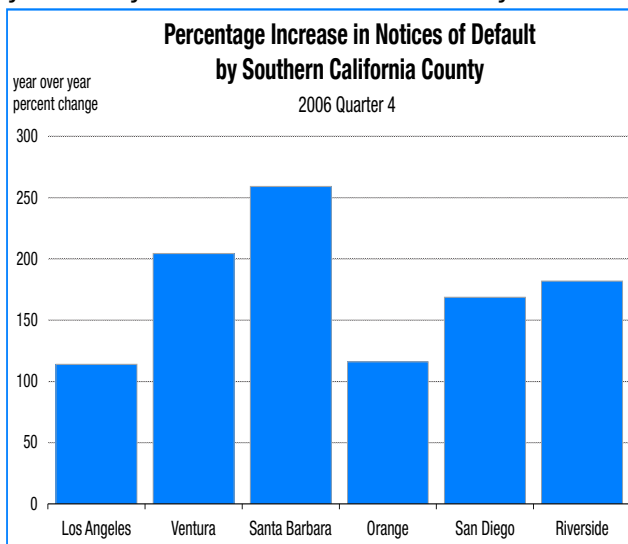
### California and Notices of Default

More California homeowners fell behind in paying their mortgages last quarter than at any time since 1998. A total of 37,273 homeowners statewide received "notices of default" from their lenders in the October-to-December period (according to DataQuick Information Systems). The increase in default notices is up 145 percent from the fourth quarter of 2005.

Notices of default are the first step in a lengthy process which can end in property foreclosure. It usually takes several months for a property to be foreclosed on by the lender after issuing the first notice of default. Typically, lenders give defaulting homeowners time to sell the home, or seek alternative financing. Only about a third of homes that "default" actually evolve into foreclosure.

Of the loans that fell into default, homeowners were late by a median of five months when the lender issued the notice of default. Borrowers owed the median of \$10,555 on a median mortgage of \$324,000.

On a loan-by-loan basis, mortgages were least likely to go into default in Marin, San Francisco and Santa Clara counties. The likelihood was highest in Merced, Riverside and Tulare counties. Of all counties in the state, Santa Barbara County had one of the highest year-over-year increases in default activity.



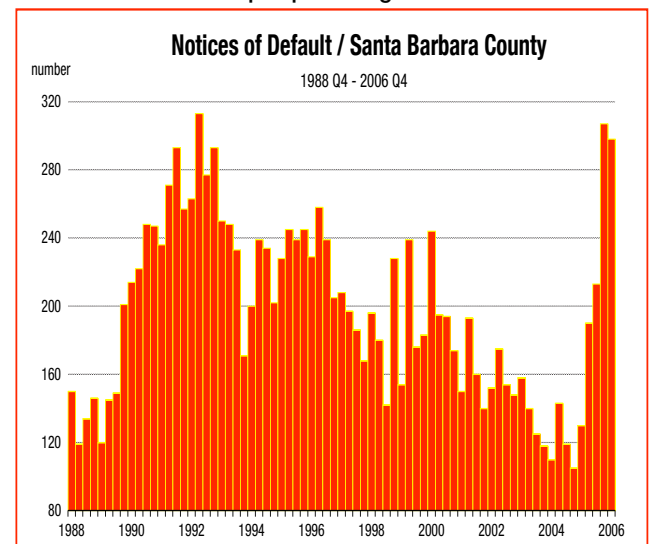
### Santa Barbara County

A total of 301 home-owners received default notices in the fourth quarter, up 259% from the fourth quarter of 2005. There were 1,008 notices of default in Santa Barbara during 2006, more than double the 497 notices that were sent in 2005, and the highest annual total since 1993.<sup>1</sup>

The increase in defaults appears dramatic in percentage terms, because the number of defaults during 2005 was abnormally low. Total NODs in 2004 and 2005 were the lowest ever recorded in Santa Barbara County.

Also dramatic was the slowing of Santa Barbara home price appreciation in 2006 after 10 years of double-digit gains. This would predictably translate into more defaults. When appreciation is rising, most owners who find themselves in financial distress can sell for more than they owe on their mortgage, and avoid foreclosure. When values stop rising, fewer can do so, and more are inclined to walk away from the property.

In addition to 2005's low default numbers and 2006's slower appreciation rate, a number of other factors contribute to the higher incidence of defaults. Borrowers are most likely to default on their loans within the first 18 months of closing their home loan. Since a record number of people bought homes in California

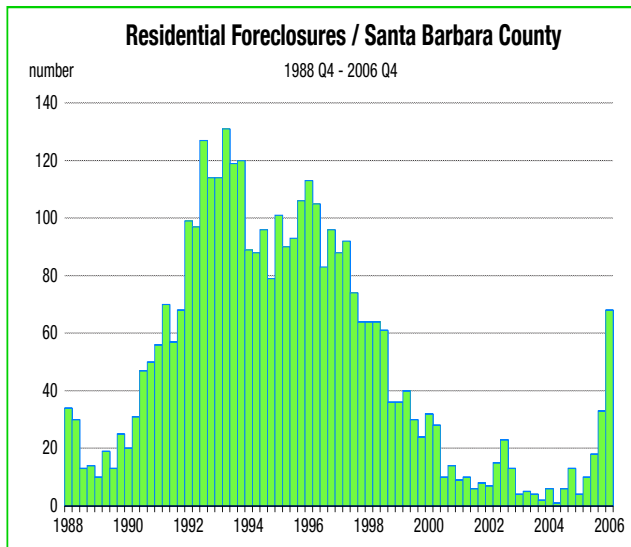


during 2005, there's been a record number of loans eligible for borrowers to default on.

Combine that with the number of homeowners that bought at the peak of the market using 100% financing and adjustable-rate mortgages (which may be re-setting steeply upward), and it's not surprising defaults are rising.

### Foreclosure Sales

Most homeowners emerge from the foreclosure process by bringing their payments current, refinancing, or selling the home and paying off what they owe. Trustees deeds, or actual foreclosure sales, recorded on homes statewide totaled 6,078 during the fourth quarter, up 77 percent over the third quarter, and 595 percent higher than the fourth quarter of 2005.



In Santa Barbara, there were 68 trustee deeds in the fourth quarter, up 206% from the previous quarter and 17 times the 4 foreclosure sales in the fourth quarter of 2005.

For the calendar year, there were only 129 foreclosures in Santa Barbara County although that number is dramatically higher compared to 2005. It's also likely to go higher in 2007 as some of the recent surge in homeowner defaults progresses through the foreclosure process. Between 1995 and 2003, 27 percent of Santa Barbara homeowners who defaulted actually lost their homes to a foreclosure sale.

### Impact on Today's Market

While foreclosure properties contributed to the decline in home values (perhaps 10 percent in some areas) when total statewide foreclosure sales peaked at 15,418 in the third-quarter of 1996, the effect on today's market is still negligible.

Unless the number of foreclosures rises at least 1,000 percent from 2005, the impact on property values in Santa Barbara County due to foreclosure sales will remain immaterial.

<sup>1</sup>Local data was collected from the Santa Barbara County Assessor's Office Website, sbccassessor.com, and also from Dataquick.

### Upcoming Real Estate Outlook Conferences in Early 2007

**February 9:** 2007 Ventura County Real Estate and Economic Outlook, sponsored by First American Title and 18 other corporations, Hyatt Westlake, 8 – 10:30 AM

**February 22:** 2007 Santa Barbara County Real Estate and Economic Outlook, sponsored by the Santa Barbara Association of Realtors, United General, Santa Barbara Bank and Trust, and 19 other corporations, Fess Parker's Double Tree Resort, Santa Barbara, 7:30 – 10:30 AM



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