

As Home Mortgage Defaults Decline, Short Sales Increase

REAL ESTATE: Banks Lenient on Short Sales; 'Shadow Inventory' Looms

By MIKE ALLEN

Mortgage default notices have dropped significantly in San Diego in recent months, but many borrowers are still falling behind on payments and short sales are becoming a more common exit for troubled mortgage holders rather than foreclosures, say brokers and other real estate analysts.

"A lot of banks are finally realizing they come out better in a short sale," said Rick Ungar, a broker with Keller Williams Realty in Carlsbad.

Short sales involve properties where the borrower owes more on the mortgage than the home is worth in the current market. Borrowers then sell the properties for less than what is owed on the mortgage thus falling short of what they owe the mortgage holder. Depending on the terms of the short sale, the borrower may not be relieved of the unpaid portion of the loan that is the difference between the original mortgage amount and the current sale price of the property.

According to the most recent report from MDA Data Quick, notices of default for San Diego County in May decreased 23 percent from April to 1,623. From May 2009, the notices were down 47 percent.

Foreclosure sales were up by nearly 4 percent for the full year in May, but that was due to many banks installing a moratorium on foreclosures about a year ago.

Loan Modifications

While some borrowers have been able to get their mortgages modified and resumed regular payments, many have been unable to qualify for any modification based on their financial situations, said real estate professionals.

"The banks have their own formulas in place, and a borrower has to fit into a nar-

row window to qualify," said Kurt Wan-nebo, principal of San Diego Real Estate & Investments, which specializes in short sales. "You can't make too much money, and you can't make too little."

For obvious reasons, the banks were reluctant to work with defaulting borrowers and modify mortgages, or consent to sales in which the banks would take a loss. Instead, many of the lenders simply declined to file default notices or sold off nonperforming loans at discounts, real estate sources said.

Marian Anthony of Anthony Realty Group in Carlsbad, a buyer and seller of properties, said the so-called "shadow inventory" of houses that haven't received default notices but haven't been paying on the mortgage is enormous.



Marian Anthony

"If we knew the actual number of defaulted mortgages, there would be a much higher supply, and prices would decline," Anthony said. "People are now overpaying."

While that may be true, recent data suggests that the local and state housing markets have stabilized, and are on the rise.

Statewide, the median housing price in May was about \$324,000, up 23 percent from May 2009 when the median was about \$263,000 according to the California Association of Realtors report on June 22.

In San Diego, the median rose nearly 20 percent from its low point price in March 2009 to \$391,000 in May, according to the same CAR report.

While those prices are up, they are still far down compared to the peak values for many Southern California homes in mid-2007. At that time, the median home in San Diego was about \$622,000, the CAR report stated.

For those borrowers who purchased



about that time, things look fairly bleak. Many are considering what's called a strategic default, or simply walking away.

Counseling Homeowners

That's not a good decision because the foreclosure could irreparably damage a person's credit. Seeking either a loan modification or short sale would be the preferable way of dealing with the issue, says Gabe Del Rio, senior vice president at Community Housing Works, a San Diego nonprofit that both develops affordable housing and provides home buying and selling counseling.



Gabe Del Rio

In response to the flood of defaulting subprime mortgages, CHW instituted a mortgage modification service in 2008, and worked with 3,287 households to resolve defaulting issues. Of that amount, it's closed some 1,300 cases resulting in either a modification or denial. The remaining cases are pending, Del Rio said.

In many cases that CHW has handled, borrowers said they were given more help in a single day than they received from a hired attorney over months and after spending thousands of dollars, he said.

Although any borrower can work directly with a lender to get a mortgage modified, the system is so complex and fraught with pitfalls it's weighted against people, Del Rio said.

Borrowers should be aware that while attorneys may charge for services and get results, they could also obtain loan modification help for free at nonprofit entities such as Community Housing Works.

Leonard Baron, a real estate professor at San Diego State University, said he's heard of some attorneys charging as much as \$3,000 for the service. Other private entities have sprung up and were charging fees up front which he advised against.

"They already have your money, so why would they spend a lot of time helping to modify your loan instead of looking for the next borrower to charge," Baron said.

The market for foreclosures and short sales is still large enough that certain real

estate firms specialize in it. Ungar said his firm did about four or five short sales in recent months, and the business now makes up about three-quarters of all sales.

Kevin Hall, general manager for the Gary Kent Team in La Jolla, said through the end of May, the firm closed 82 transactions, of which 60 percent were foreclosed properties, and another 20 percent were short sales.



Rick Ungar