How Many Foreclosures in Pacific Palisades?

OPEN HOUSE

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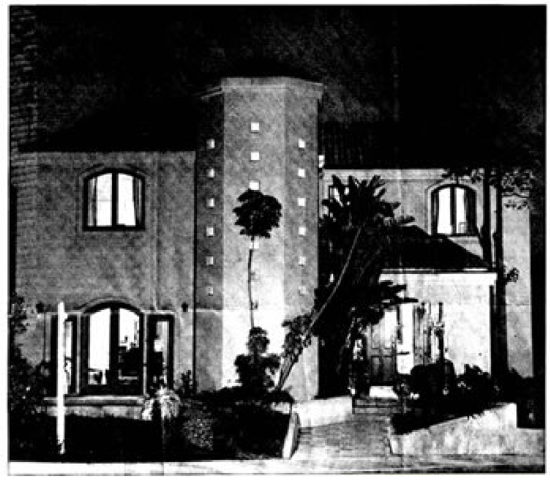

Foreclosure. It's a scary word these days. However, most of the cases we've been hearing about lately involve homeowners who ended up borrowing from sub-prime lenders because they had a spotty credit history, could not document their income or didn't have enough money to make a down payment. According to a recent Los Angeles Business Journal analysis of home and condo sales data, risky sub-prime loans account for at least one-fifth of all mortgages issued in nearly 30 Los Angeles County ZIP codes over the past two years. The analysis showed that the loans, which charge higher interest rates, are predictably concentrated in lower-income areas of South Los Angeles, Latino neighborhoods such as Pacoima and high desert communities such as Palmdale and Lancaster.

According to DataQuick Information Systems, Los Angeles County defaults more than doubled in the fourth quarter of 2006, with 7,445 Notices of Default (NODs) compared to 3,480 a year earlier. In Willowbrook, a neighborhood near Watts, the loans totaled more than 25 percent of all mortgages. The fear is that a high concentration of sub-prime loans in any one area may lead to a large number of defaults, which could lead to falling real estate prices, which could have a trickle-down effect. If someone in Watts can't move up, it could potentially affect sales in Westchester and eventually Westwood. How vulnerable is Willowbrook?

That neighborhood had 319 sub-prime loans issued over the past two years which is considerably more than the number of sub-prime loans issued in affluent areas such as Santa Monica (nine), Malibu (seven), and Pacific Palisades (four, out of 488 sales in 2004 and 2005). Still, the Palisades has its share of foreclosures.

According to Anthony Marguleas, owner of Amalfi Estates on Sunset, there are currently nine homes in default and seven that are showing as bank-owned. Public records indicate that the NODs in the Palisades are located on Castellammare, Hampden Place, Sunset Boulevard, Charmel Lane, Alta Mura Road, Albright, Calle Arbolada, Avenida de la Herradura, and Palisades Drive. Current REOs (Real Estate Owned by the bank or other lender) include property on Almar, Revello, Iliff, Castellammare, Calle Haleigh, Palisades Drive, and Via Santa Ynez.

"This is a little above average but nothing alarming," said Marguleas, who has been tracking foreclosure statistics in the Palisades since 2002. He said that 65 to 75 percent of NODs usually "get cured" (see box) and do not become REOs. According to DataQuick, lending institutions sent homeowners 37,273 Notices of Default during the fourth quarter of 2006 (out of 7,870,000 houses and condos statewide) and that "about one-third of these homeowners who found themselves in default actually lost their homes to foreclosure," explained Marguleas, pointing out that "most homeowners stop the process by bringing their mortgage payments current or, if they have enough equity, by selling their property and paying the loan off. While it has been heavily reported that foreclosures increased by 145 percent compared with the 15,196 Notices of Default from the fourth quarter of 2005, in reality this 37,273 number is closer to the average of 33,615 NODs which have been filed quarterly since 1992, when DataQuick began keeping these statistics."

Marguleas has concluded that the reason the numbers jumped so high is that foreclosure rates were at all-time lows, thanks to the 15 to 20 percent average annual appreciation we have enjoyed in recent years. To put things in perspective, foreclosures peaked at 61,541 in the first quarter of 1996, the last time the real estate market took a dive. When first-quarter data for 2007 is released (expected in the next week or so), he thinks there will be cause for concern if NODs "start heading upwards to 50,000 or more"

What would the monthly mortgage payment be on a sub-prime loan of 8.5 percent or more on an almost $3-million purchase—the current median list price in the Palisades? A whopping $23,067! About one-third would be paid monthly and two-thirds would be deferred (i.e., added to the mortgage).

At that rate, it's easy to see how homeowners get in financial difficulty—whether they are making a $3-million purchase or one for $300,000.