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May 3, 2006

County sees spike in mortgage default warnings

By Gwen Mickelson

Sentinel staff writer

SANTA CRUZ — The number of California homeowners who received mortgage default notices increased in the first quarter to the highest level in more than two years, a real estate research firm said Tuesday — and Santa Cruz was among the list of counties with the steepest jumps.

Lenders sent 18,668 default notices — which serve as an early indicator of possible foreclosures — to homeowners between January and March, a 23.4 percent increase from the fourth quarter of 2005 and a 28.7 percent hike from the year-ago period, according to DataQuick Information Systems.

In Santa Cruz County, 108 homeowners received notices of default in the quarter, according to Andrew LePage, a DataQuick analyst based in Sacramento. That's a 61 percent increase from the first quarter of last year, when there were only 67 notices sent out, said LePage.

"But it's important to keep it in context," he said. "The 67 a year ago was really low."

In counties with very low numbers, "it doesn't take much to jump up 61 percent," he said. "The increase sounds chilling, but the actual number isn't."

Default notices across the state were unusually low for a long period because of "unusually high home prices, which make it easier to get out of financial arrears because you can refinance or slap a second mortgage on the house and buy yourself some time," said LePage.

The county is still below its quarterly average of 110 default notices, said LePage. DataQuick's figures go back to 1992.

The rise doesn't appear to Advertisement be linked to loans in which payments suddenly increase, such as adjustable rate mortgages, said LePage.

DataQuick President Marshall Prentice said the hike was largely driven by the slowing of annual home price increases, which makes it harder for homeowners to sell their homes and pay off lenders.

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A rise in default notices would probably not directly influence home prices in Santa Cruz County, but it could contribute to the number of homes on the market growing, said Gary Gangnes of Real Options Realty in Santa Cruz.

"If a lot of people are in default and they can't make the payments, the next thing is to try to sell the house," said Gangnes. "It would affect pricing if unsold inventory index gets abnormally high. If it gets to be a 12 months' supply, that could put downward pressure on prices."

The current unsold inventory index — how long it would take to sell the current inventory at the current rate of sale — is about 6 months, which Gangnes said "is pretty much normal — it was abnormally low before." The index hit a low in January 2005 at 1.8 months, he said.

The state's annual home appreciation rate peaked in the second quarter of 2004 at 22.8 percent and has steadily slowed since. The annual rate of increase was 12.4 percent during the first quarter of this year, DataQuick said.

The number of mortgage default warnings sent to homeowners peaked in the first quarter of 1996 at 59,897. The fewest — 12,145 — were sent in the third quarter of 2004, according to DataQuick.

In addition to Santa Cruz, the counties that saw a more than 50 percent increase in the number of notices during the first quarter were Yuba, San Benito, Stanislaus, Placer, Monterey, Napa, Ventura, Riverside and San Diego.

Typically, about 5 percent of homeowners who receive default notices end up losing their homes to foreclosure.

The Associated Press contributed to this report.

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