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CITY LIGHTS

Where the Pain Is

By Don Bauder

What's the difference between National City and Rancho Santa Fe? Well — er, uh — money comes to mind. Last year, median household income in National City was $44,130, according to figures provided by the San Diego Association of Governments. That was far under the county median of $68,388. But the median household income in Rancho Santa Fe last year was around $200,000.

Another difference is that 70 percent of the homes currently listed for sale in National City are in distress — that is, are in foreclosure or are so-called short sales. The corresponding percentage in Rancho Santa Fe is a mere 5.2 percent, according to figures provided by Brian Yui, chief executive of *HouseRebate.com,* a discount real estate broker. Yui's firm has a comprehensive website providing information on total listings, short sales, and foreclosures in San Diego's various markets.


Brian Yui

So what's the difference between a foreclosure and a short sale? In a foreclosure, a homeowner is unable or unwilling to make payments, and the lender takes back the house. A short sale is an attempt to avoid foreclosure. The lender agrees to take a discount on a loan balance that is due. Say, if the balance of the loan is $300,000, but the house can only be sold for $250,000, under a short sale the lender might take $250,000 as payment in full. Although the media talk all the time about foreclosures, short sales are more prevalent. Yui's website shows that in many markets, there are three to five times as many short sales as there are foreclosures.

MARKET	MEDIAN FAMILY INCOME	CURRENT LISTINGS	SHORT SALES	FORECLOSURES	DISTRESS SALES
Lemon Grove 91945	$60,050	140	74	21	68%
National City 91950	$43,946	223	104	51	70%
Chula Vista 91915	$100,635	341	213	39	74%
Del Mar 92014	$113,407	139	5	2	5%

Sources: HouseRebate.com, SANDAG

Throughout the county, foreclosures and short sales tend to be concentrated in lower-income areas. But possibly the biggest factor leading to the distress sale has been a dangerous mortgage that was sold to a greedy or naive person by a greedy salesperson. Particularly poisonous have been loans with so-called teaser interest rates — deceptively low in the early years, but then ratcheting higher. People were told that home prices always went up and they could always refinance the mortgage to offset the higher interest rates. Ouch. Then there were the "liar loans," euphemistically called "stated income" loans, in which people said how much they made a year and didn't have to provide documentation to prove it. Double ouch.

The county's problems "are mostly where entry-level housing is," says Yui. People buying their first home got a lower-priced house and also a mortgage that they wouldn't be able to handle as soon as the refinance game ended. The deceptive mortgages "gave people the ability to get in with nothing down, with payments artificially lowered for the first 12 to 18 months," says Carlos Aguilar, president of AXIA Real Estate, who specializes in foreclosures. "It was a house of cards that fell apart like a Ponzi scheme the minute [home price] appreciation stopped."

The experts agree that new, so-called affordable housing developments attracted many buyers who subsequently couldn't carry their mortgages. So homes in these developments have been dumped on the market. "With the new construction, developers were offering a lot of incentives, getting people in any way they could," says Dennis Smith of North County's Taylor Place Real Estate. "Now, when one property goes into foreclosure, values in the whole area drop." Distress sales also show up heavily among condos and condo conversions, says Smith.

There are many more short sales than foreclosures because homeowners want to "avoid the black mark of foreclosure on a credit report," says Yui. The lenders, in turn, are willing to

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Contact Don Bauder at 619-546-8529 or **don.bauder@mac.com** let the homeowner off the hook because they don't want the hassle of trying to sell the home in this miserable market. Short sales involve more administrative headaches. "The banks are overloaded. Often, there are two lenders involved."

"It is not unusual to see a short sale take two or three months to get clear and another 30 days to close," says Aguilar. Often banks won't accept the short sale proposal. Real estate agents, therefore, would rather sell a property in foreclosure. It's faster and cleaner. The short sales pile up in inventory, while the foreclosures move quickly into escrow. That's another reason there are so many more short sales than foreclosures on the market.

Lower-income areas featuring at least some relatively new developments have been hit the hardest. Lemon Grove median family incomes are a subpar $60,050. Prices have plummeted 33.6 percent in the last 12 months. Yui's figures indicate 70 percent of Lemon Grove homes now listed for sale are short sales or foreclosures. Nearby Spring Valley has incomes around $70,000. Prices there have plunged 38.3 percent over the past year. A bit over 40 percent of homes on the market are short sales or foreclosures, about double the county average. "A lot of first-time buyers can't afford La Mesa, so they go to Lemon Grove and Spring Valley," says Arnie Levine of County Properties.

Chula Vista has been hit very hard. Median incomes on the west side, where many homes were built in the 1940s, are below $60,000. The east side of Chula Vista features planned communities such as Otay Ranch, EastLake, and the Woods. Household incomes are around $100,000. But 72.6 percent of homes on the market on the east side are foreclosures or short sales, compared with about 60 percent on the poorer west side of town. Aguilar says that Chula Vista was a haven of liar loans.

"In Chula Vista, the higher-income areas are hurting more," says Zulema Maldonado of Prudential Real Estate in EastLake. She agrees that excessive liar and teaser-rate loans have hurt. "They purchased big homes and started with loans that were interest-only" or some other type in which the interest rate adjusted upward. "Otay Ranch is hurting the most. In 2003, prices were $400,000. They went up to $800,000 and are now back to $500,000."

In zip code 92057, the northeastern part of Oceanside abutting Camp Pendleton, 69 percent of homes on the market are short sales or foreclosures, according to Yui. This area includes Mesa Margarita, an older development. The area is crime-ridden, but family incomes at $71,046 are somewhat above the county median. "There were a lot of first-time homeowners there. It got into the feeding frenzy," and people bit on the liar and teaser-rate loans, says Smith. "Prices were enticing, and there was a lot of new construction."

Other low-income areas are having troubles. In the 92027 zip code in Escondido, the median price of homes has dropped from $500,000 to $350,000 in the last two years. Median incomes are a subpar $66,284. Of homes on the market, 72 percent are short sales or foreclosures. The Encanto area has incomes that are lower still: $63,865. Home prices are down 38.6 percent over the last year. Of Encanto homes for sale, 75 percent are short sales or foreclosures.

By contrast, Del Mar, with its median income of $113,407, has few homes in distress. Just 5 percent of homes on the market there are short sales or foreclosures — about the same as tony Rancho Santa Fe.

The interest rates on many San Diegans' mortgages will be reset in the next few years. So how long will the crisis last? Levine thinks it is close to bottoming now; the Federal Reserve will have to raise interest rates to defend the dollar, he believes, and buyers will come in, fearful that interest rates will go further upward. Louie Duarte of County Properties thinks it will last "three years at the max, more likely a year to two years." Joshua Sloan of Keller Williams Realty in Escondido says the problems will go on for "the next year or even two." Says Yui: "another 12 months." It will be painful for those families losing their homes but a gift to San Diegans who can finally afford to buy one. ■