

Schniepps' Real Estate and Mortgage News

Vol: 2

Issue: 6

June 2007

Defaults and Foreclosures in Santa Barbara County

by Mark Schniepp

The number of defaults and foreclosures are accelerating in Santa Barbara County and across the state. In the first quarter of 2007, there were 401 defaults countywide, up 157 percent from the first quarter of 2006 and at the highest level ever.

Ninety-eight homes were sold through foreclosure in the first quarter of 2007, up from just 10 in the first quarter of 2006. Statewide, defaults were up 148 percent and foreclosures increased 802 percent. The rise in problem mortgages in the county is a mirror reflection of the state's experience.

However, it appears that not all regions of the county are being affected equally. Default rates are significantly higher in areas with lower median home prices and higher production of new homes, which is synonymous with a greater concentration of entry level and subprime buyers.

There is a growing trend of subprime borrowers defaulting at a much higher rate than prime borrowers. On loans for homes purchased in Santa Barbara County during 2006, nearly 3 percent of prime borrowers were at least 30 days behind in their mortgage payments by the end of the first quarter of 2007. For subprime borrowers, the percentage was markedly higher, at 22 percent.

As of June 2007, in the South Coast, there are 78 defaults, less than in Lompoc alone. The rate of defaults per 10,000 households is 10. In Buellton, Solvang and Santa Ynez, there are 8 defaults at a rate of 8.1 per 10,000 households. Both of those areas have high median home prices and relatively low levels of new housing production.

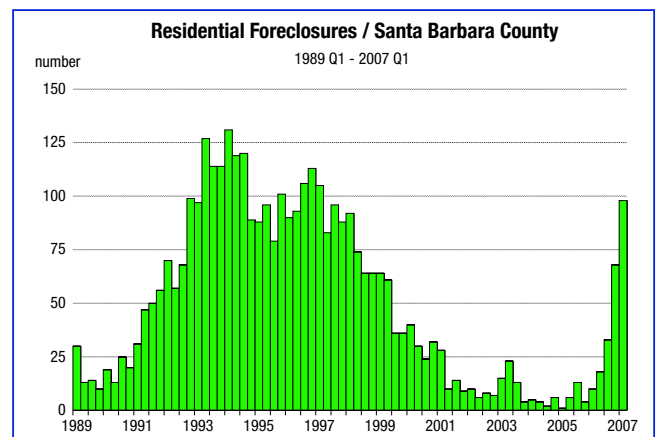
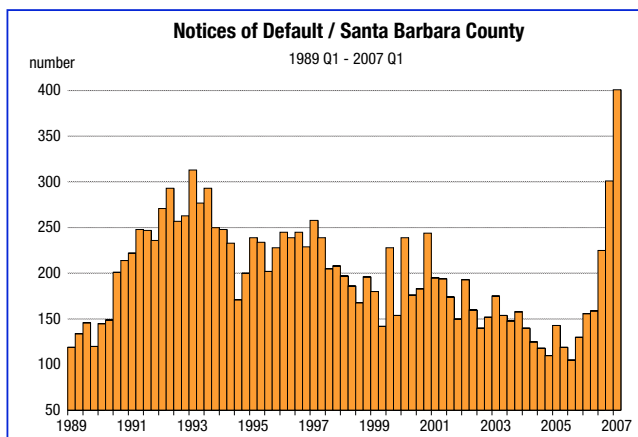
The highest rates are in Lompoc and the Santa Maria Valley. In both areas, there is more than 40 defaults per 10,000 households, more than 4 times the rate of the South Coast.

Higher levels of default activity in the less affluent parts of the county are likely to continue putting downward pressure on home prices. Regions with lower levels of default activity, such as the South Coast and parts of central Santa Barbara County will not be as negatively impacted.

Default Activity in Santa Barbara County June 2007

| Region | Defaults | Defaults per 10,000 households |
|----------------------|----------|--------------------------------|
| South Coast | 78 | 10.0 |
| Lompoc | 84 | 42.4 |
| Buellton, Solvang | 8 | 8.1 |
| North County | 278 | 71.3 |
| Santa Barbara County | 448 | 30.6 |

Source: Foreclosure.com, and California Economic Forecast



Refinance Options for Adjustable Rate Mortgage Holders *by Susan Schniepp*

Over the last five years, a number of homebuyers were able to enter the local real estate market by securing an adjustable rate payment option mortgage. With these loans, the borrower can generally choose from the following options each month:

- minimum payment based on an interest rate as low as 1%
- interest only payment
- fully amortized 30 year payment
- fully amortized 15 year payment

Borrowers who have chosen to make the minimum payment consistently during the last year or two have found their loan balances increased substantially. With the minimum payment option, deferred interest, also known as negative amortization, accrues. The principal amount owed increases according to the amount of the deficiency of the minimum monthly payment as compared to the actual interest payment due. For example, if the minimum payment is based on 1% interest but the real interest rate is 7%, the result is deferred interest.

Although these loans are a great way to maximize cash flow and enter the market, they are

not a long term option. Most lenders will only allow the loan to grow to about 115% of their original balance. During times of rising interest rates, this can occur more quickly than anticipated. Option ARMs typically adjust after the 1st, 3rd, or 6th month and continue to vary according to the index they are tied to. Currently, the rate on most option arms is between 7.5 and 8.5%, considerably higher than fixed rates. Refinancing these loans can both reduce the rate of interest and slow down or stop negative amortization.

To prevent the payment shock of refinancing to a fully amortized, fixed rate mortgage, borrowers have several choices. They can switch to an interest only loan (at a lower rate than the option arm) or they can get a fixed rate option arm. Five year fixed rate payment option mortgages are becoming increasingly popular. Since the rate is fixed, there is less risk. Also, the minimum payment rate is usually a percentage of the actual rate as opposed to a 1% start rate so there is less overall negative amortization. If you have questions about whether refinancing your option ARM makes sense, please feel free to call or email.



Susan Schniepp,
Capital Financial



1805 East Cabrillo Blvd, Suite F
Santa Barbara CA 93108

Licensed Mortgage Broker
California Department of Real Estate

Susan Schniepp, M.A.
Loan Consultant

805.565.5750 x106
805.252.6324 cell
805.969.3156 fax
susan@cfssb.com



Mark Schniepp,
California Economic
Forecast