

## **California Foreclosures About to Explode!** **by Bruce Norris**

The number of home owners in foreclosure is about to explode! Let's discuss how this will affect you as an investor.

The history of California's foreclosure numbers is the classic boom/bust scenario. Below you will find a chart showing the number of trustee sales over the past 30 years. There seem to be only two choices; trustee sales are either headed up or they are headed down. Trustee sales have declined from a peak of 70,513 to 3,000 from 1997 to 2005. That's a reduction of over 95%!

In 2006, the down trend reversed itself and went up from 3,000 to about 9,000. Many economists have been quoted as saying this trend, thus far, isn't significant. I couldn't disagree more! The trend is the most important element of predicting the future numbers of trustee sales we are going to have. Does it look likely to you that trustee sales will head down after just a year or two of increase? That doesn't seem to be our history.

A more likely scenario will be that trustee sales will go up for the next four years or so. The problem is, the year-over-year increases won't be small; they will be huge! We already know that notice of default filings are up about 145% in California 2006 from 2005. The notice of default stage is the first stage of a California foreclosure. That process takes three months. Following that is a 21 day, trustee sale process. After that, the property can be sold at the courthouse steps.

The percentage of notices of default that turn into trustee sales is directly proportional to inflation of real estate prices. If we have price increases (like 2000-2005), about 12% of notices of default end up being sold at the trustee sale. However, in years like 1997, the peak of the down-cycle of real estate, closer to 55% of notice of defaults went to trustee sale.

Here's why that is significant to investors and home owners alike. If notices of default increase by 145%, trustee sales have the potential to increase a whopping 4.5 times (12% divided into 55%). In other words, a 145% increase in notice of defaults could cause notices of trustee sales to rise by 650%.

I've been reading the comments made by economists for the past few months. Their favorite phrase is "We are returning to a more normal market." Trustee sales have been described in the same fashion. John Karovoll, from Data Quick, puts it this way, "So far, the number of foreclosures isn't alarming. However, if the numbers keep going up at this rate, it could get nasty real fast."

The above quote was from January, 2007. Why aren't people in influential positions telling homeowners that this foreclosure problem is about to explode, guaranteed! In the past, California trustee sales have increased by nearly 1,000% from bottom to top. We are

about to experience the same trend upward, and in all likelihood, an historic percentage increase!

The issue of sub-prime mortgage lenders has been on everyone's radar. Over 30 sub-prime lenders have closed their doors since December. I recently interviewed Paul Leonard with the Center for Responsible Lending. They have a new office that just opened last year in California. The purpose of this group is to make sure borrowers are told the truth about what they are signing up for. It is their opinion that many of the borrowers who took out sub-prime loans (which are about to explode in monthly cost) were unaware the payments had the potential to double. That means you can bet a lot of lawyers will be pretty busy "protecting" the abused clients. The lending world will go from very loose and profitable to very tight and a losing proposition.

Going forward, lenders will be required to make sure their borrowers can actually make their payments under a worst-case scenario. Trust me, the California buyer pool is about to shrink. In addition, by making it tougher to borrow money for purchases, imagine the surprise when someone attempts a refinance. The terms and conditions on their original loan won't be able to be duplicated. This will enhance the number of foreclosures and could create a substantial price hit for our state.

The good news is that savvy investors will have the opportunity to make tremendous deals in the next few years. Lenders are about to wish they had practiced a little restraint.

*Bruce Norris of the The Norris Group is a millionaire investor and author of the book The California Crash. He may be reached at 951-780-5856 or by visiting his website, [www.thenorrisgroup.com](http://www.thenorrisgroup.com).*