

Lender Owned Properties to Set Record in 2008! **by Bruce Norris**

Nearly every day someone asks me, “When are things in real estate going to return to normal?”

Normal isn't the correct word to describe what happened between 2001 and 2006. Forty year low interest rates, stated income loans and an absence of other investment choices made real estate prices soar to unrealistic levels.

From 1997 to 2006, California real estate prices *tripled*, while incomes went up less than \$20,000. Lenders allowed families to state whatever income was necessary to allow a purchase to go through. The initial results were exploding real estate prices and everyone loved real estate. The normal ratios went out the window and people assumed that somehow, this time, it was different. Even economists gave real estate a clean bill of health nearly all the way through 2006.

The ultimate result has now become evident. Many of the buyers in 2005 and 2006 were allowed to buy properties that were way too expensive. The lenders are now reaping their just desserts; they are about to own a record number of California homes.

If you are waiting for things to improve by the end of 2008, here's something to think about. Several studies have been released suggesting that the peak of subprime resets isn't due to peak until early summer of this year.

It is fair to assume that the typical subprime borrower had a small down payment (if any), a teaser rate interest for 24 months and had exaggerated their income on their loan application. When the loan payment adjusts, many of these borrowers cannot make the higher payment. They then go out looking for a replacement loan only to find a completely changed market in which they actually have to qualify. To make matters worse, the price of their home has probably declined below the loan amount making refinancing impossible.

Once the mortgage resets on month 25, the teaser rate jumps significantly to a payment out of reach for a large majority of subprime borrowers and the borrowers will stop making payments. The lender typically waits five months before proceeding with the foreclosure process. The California foreclosure process takes about four months to complete and then one month is needed to evict the past owner. So, the entire California foreclosure process currently takes about 10 months total.

Therefore, whatever the real estate market is experiencing is because of loan payments having their first adjustment ten months ago. Count backwards ten months from March 2008 and you understand the reason 2008 will be the most challenging year in history to ever sell a house. The properties that had a monthly price increase past May 2007 have not had time to reach the lender owned property stage.

The next 18 months will see a record number of foreclosures and lender owned properties in California. Prices will continue to decrease and lenders will take tremendous losses. As a buyer, I can't think of a better market to pick my spots and buy tremendous bargains!

*Bruce Norris is an active investor, hard-money lender and real estate educator. A talk show host in his hometown of Riverside, Calif., Norris is a frequently quoted in financial publications and a speaker at investor club meetings throughout California. His latest study, *The California Crash*, was released in January 2006 and provides the statistics that substantiate his predictions. More information about Bruce Norris, his research and his investment seminars are available at www.thenorrisgroup.com.*