

# The Housing Bubble

Examining the home price boom and its effect on owners, lenders, regulators, realtors and the economy as a whole.

November 18, 2007

## [This Is A Hard Landing For California](#)

The [Sacramento Bee](#) reports from California. "If you bought a house in the Sacramento area last year, chances are your annual income came to about \$80,000. But your loan application said you earned a good deal more. A Bee computer analysis of more than 61,000 Sacramento-area mortgages over two years reveals striking discrepancies - gaps as high as 25 percent - between what homebuyers earned and what was listed on their loan applications."

"'Wall Street was looking for (stated income loans) and all of us were working very hard to be competitive in the marketplace,' said Mark Kemp, Countrywide executive VP for Northern California, Nevada and Hawaii. Kemp said Countrywide has stopped making such loans."

"'I don't want pity,' said Natomas resident Rose Marie Reyes, who's losing her home after getting a no-doc refinance loan. 'I want people to know...they really should watch what they're getting themselves into.'"

"Reyes said she didn't realize until later, while meeting with a credit counselor, that her lender had 'poofed' up her income."

"The California Association of Mortgage Brokers defends the industry's conduct and says borrowers took the lead on

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pumping up their reported incomes.”

“I have turned down many clients who have told me they make ‘this’ amount of money,’ said Jon Kaempfer, a member of the association’s board. ‘Well, I don’t believe them and I turn them down – I don’t believe you’re making \$12,000 a month raking leaves.’”

“South Sacramentan O’Lester Williams, who refinanced his Valley Hi home this year, said Caliber Lending inflated his \$3,600 monthly income to \$6,475 without him realizing it. ‘They boosted up my income, and I didn’t catch it until later,’ said Williams, 79. ‘I had been looking at five dozen papers and you can miss one line. That’s what I did – I missed that line.’”

“Williams is struggling to keep up with his pay-option loan, which lets him choose his monthly payment in a range from \$1,486 to \$3,724.”

“His credit counselor...said loans of this type typically mean a profit of at least \$15,000 for a company. ‘There was a lot of money made on that one,’ Himes said.”

“Reyes stayed afloat the first two years. She even survived six months of unemployment by tapping into savings and getting help from family. But when her loan reset in January and the monthly payments shot up from \$2,381 to \$3,161, Reyes was sunk. Hit with a default notice and the threat of foreclosure, she started packing.”

“‘It’s a sad thing to say,’ she said, standing in a living room filled with cardboard boxes, ‘but walking away from this home will be a relief.’”

The [San Francisco Chronicle](#). “If you want to see how the

The key to finding a good lender in today's market is comparing [personal loans](#) online.



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housing bust is affecting business in the Bay Area, there's no better place to look than Fairfield."

"Housing in this bustling Solano County city is in an outright depression. Home prices are plummeting, buyers are running for cover and, in September and October, not a single home building permit was issued, the first time that's happened in the memory of city officials."

"With the mortgage market in crisis and buyers not to be found, housing in Fairfield is flat on its back. The median home price in the city fell to \$400,000 in October from \$510,250 the year before, a 23.6 percent free-fall, according to DataQuick."

"The number of sales fell to 83 from 174 in October 2006, down 52.3 percent. And in the months of July, August and September, 129 Fairfield homes were lost to foreclosure, compared with 15 in the third quarter of 2006."

"In the building industry, 'the bust came in and it's rolled over everybody,' said Kevin Cerkoney, president of Compu-Tech Lumber Products. Compu-Tech's sales are down about 60 percent from their peak."

"Developers [have moved](#) beyond free stainless steel appliances and granite countertops to lure buyers and are now offering something less trendy but perhaps more welcome - deep discounts."

"The credit crunch has shrunk the pool of potential buyers in a market that was already struggling with excess inventory and developers are pushing to clear their books by the end of the year. That has sent new home prices in the Bay Area down by as much as 20 percent from their highs two years ago, according to Joseph Perkins, chief executive of the



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Home Builders Association of Northern California.”

“Builders, from national publicly traded companies to smaller regional players, dangle price cuts of as much as \$150,000 on some projects in the far reaches of the Bay Area.”

“‘There is a massive amount of inventory sitting out there that is not being sold, particularly out in the East Bay,’ said Christopher Thornberg, a principal at the consulting firm Beacon Economics. ‘You’re talking total meltdown.’”

“Some are reluctant to commit because they are afraid that after they close, prices could continue to fall, said Ashley Cook, marketing manager for the Shea Homes’s Northern California group. ‘Obviously, one of the concerns about buying right now is what if prices do continue to go down,’ she said.”

“Perkins said that this downturn in the new-home market is as bad as anything that members of his group have seen over the last 50 years. ‘This is not a soft landing we’ve had,’ he said. ‘This is a hard landing.’”

“That means developers have to do what it takes to get homes sold, even if it isn’t pretty.”

“‘They’ve got to get that standing inventory off the books,’ Perkins said. ‘Lenders want to see it off the books and, for public companies, investors and Wall Street, want to see it off the books. That pressure is the reason you see those full-page ads offering all sorts of incentives.’”

The [Reporter](#). “Working families and local business owners didn’t need to see sheriff’s deputies and the ‘repo man’ taking everything away from a Vacaville auto dealership on Wednesday to comprehend the down-home impact of the

nation's economic malaise."

"The busted housing market has taken its toll on real estate agents, mortgage brokers, home furnishers and construction workers who live and ply their trades here. Hundreds of homeowners are in foreclosure, and nearly every owner has seen the value of his or her property decline."

"This very afternoon in north Vacaville, a builder is auctioning off 18 homes in an upscale neighborhood, a result of its inability to attract buyers for the high-end houses that recently were selling for as much as \$900,000."

"It's quite possible that today's bidders won't go much above \$500,000 or \$600,000, a situation that infuriates neighbors who were charged top dollar when they bought in a few months ago."

The [Recordnet](#). "When Jose and Mary Florendo moved to Lathrop, they rented out their three-bedroom, two-bath previous residence in Stockton. The payments they received, however, were not enough to cover the mortgage. And they couldn't afford to refinance because of the housing downturn. The Florendos' previous home is in foreclosure."

"The Florendos' previous home is in foreclosure. Jose Florendo, a member of St. Gertrude's Catholic Church, said he has sought God's solace during this difficult time."

"'I've kept quiet, because I didn't want others to know,' Florendo said. 'But I've kept in touch with God by praying and going to church. Hopefully, soon we'll be able to start over again.'"

"The situation of the Florendos and hundreds of others in San Joaquin County spurs a healthy debate in religious circles

about whether people of faith should have engaged in the housing gamble that has led to a record number of foreclosures in the county.”

From [KSBY](#). “Home foreclosures on the Central Coast have hit their highest number in over a decade. According to Realtytrac.com, over 850 homes in Santa Barbara and San Luis Obispo counties are in pre-foreclosure. 260 homes are up for auction. 760 bank-owned homes are for sale.”

“Potential buyers hopped on a tour bus Saturday and got a glimpse of some of the bank-owned properties available in San Luis Obispo County.”

“Saturday, real estate broker Dick Keenan led a group of about 30 potential buyers on a tour of available foreclosed properties. ‘The benefit of buying a real estate owned home is that it’s not emotional. It’s all dollars and cents and the opportunities we’re seeing now are the best they’ve been in ten years,’ said Keenan.”

“The number of houses selling on the Central Coast is almost half of what it was two years ago. ‘It was so hot before a couple years ago, right now it’s so dead I’m not seeing the houses move like they were before,’ said Paso Robles resident Brian Henninger.”

“According to Keenan, banks are accepting extremely low offers. ‘What they’re taking is sometimes mind-boggling meaning that the market may be drifting down even quicker than some of us realtors expect them to,’ said Keenan.”

“The glut of foreclosed properties is causing problems for those wanting to sell their homes. ‘It’s a good buyer market right now but as far as selling... good luck,’ said Henninger. ”

The [Press Enterprise](#). "Residents of Copper Canyon in Murrieta watched in astonishment as a group of investors snapped up homes in their middle-income community last year, paying \$50,000 to \$100,000 more than the sellers wanted."

"Today, the front yards are browning, overgrown with weeds. Many of the houses are empty. Owners have put up for-sale signs to lure buyers before the houses are auctioned on the courthouse steps or seized by lenders. Many are in foreclosure."

"The U.S. Securities and Exchange Commission and the Riverside County district attorney's office are investigating Pacific Wealth and the men behind it. Investors who have lost an estimated \$200 million in cash and equity have joined in five lawsuits that allege fraud and unfair business practices."

"Starting in 2004, when home values in the Temecula-Murrieta area were climbing an average of 30 percent compared with a year earlier, Pacific Wealth associates recruited in California, Arizona, Texas, Oregon, Colorado, Illinois and possibly other states."

"Investors bought houses with the understanding that the homes would be rented out and, when the time was right, sold for a huge profit or refinanced to raise money for other investments. They said they were promised financial independence within three years if they followed investment instructions without question."

"Investors received no contracts and no financial statements from Pacific Wealth to verify the nature of the investments or to show what had happened to their money."

"Some couples bought 10 or more homes, assured that Pacific

Wealth would cover the difference if the rent collected fell short of covering monthly payments.”

“Pacific Wealth’s scheme depended on investors with big dreams but little skepticism, appraisers willing to value houses at more than the listed prices, lenders who didn’t check appraisals or verify the accuracy of mortgage applications, and a slow response by the authorities to complaints about suspicious deals.”

“Many investors wonder now how they could have been so gullible.”

“The house at 23876 Cloverleaf Way in Murrieta was among those purchased for more than the asking price. It was listed for sale Aug. 17, 2005, for \$630,000. On Jan. 9, 2006, the price was lowered to \$620,000 and two days later to \$610,000.”

“Then on Feb. 2, 2006, after the house had been listed for more than five months, the price was raised to \$715,000 with the notation that a sale was pending. On June 2, 2006, the house sold for \$700,000.”

“After discarding all the Stonewood sales in the neighborhood, “Comparable houses in March 2006 were selling for between \$560,000 and \$570,000. The Stonewood investor who bought the house, currently is trying to sell it for \$440,000 to avoid foreclosure.”

“Law enforcement showed little interest in the situation, said Vicki Carpenter, past president of the Inland Valley Association of Realtors. ‘They said they didn’t see anything illegal. They couldn’t identify a victim, and no one else was complaining,’ she said.”

“That the lenders have not sued Pacific Wealth’s real estate arm, Stonewood Consulting Inc., ‘says to me the lenders didn’t have a problem with these loans,’ said Scott Grossman, Stonewood’s attorney. ‘We had a very hot real estate market. The market runs wild, loans get made, and a certain amount don’t pan out,’ he said.”

Posted By: Ben Jones @ 12:45 pm

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☰ *Comment by [Ben Jones](#)*

2007-11-18 11:40:38

The Press Enterprise did a great job of getting many of the details in that bizarre ‘investment club’ story.

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☰ *Comment by [Leighsong](#)*

2007-11-18 14:59:10

Indeed, they did a great job.

I’m in shock! So many people and not one signed contract from an investment club!

I’m telling you, ever time I think I’ve heard the worst, ya come along a take my breath away AGAIN!

At least I sleep well at night!