YAHOO! NEWS

The U.S. foreclosure crisis, Beverly Hills-style

REUTERS By Tim Reid | Reuters – 17 hrs ago

BEVERLY HILLS (Reuters) - The careworn house not far from Santa Monica Boulevard resembles millions of other homes that have been foreclosed on since the calamitous U.S. housing crash four years ago.

Garbage spews from trash bags behind the property. A smashed television leans against broken furniture. A filthy toy dog lies on its side, an ear draped across its face. The garden is overgrown. The house needs a paint job.

Yet the property on North Rexford Drive, Beverly Hills, California, is no ordinary foreclosure.

A sprawling, Spanish-style estate, fringed by majestic pine trees and located near the boutiques of Santa Monica Boulevard, its former owners were served with a default notice in 2010; they were $205,000 behind in their payments on mortgages totaling $6.9 million.

Welcome to foreclosure Beverly Hills-style.

Some 180 houses in Beverly Hills, the storied Los Angeles enclave rich with Hollywood stars and music moguls, have been foreclosed on by lenders, scheduled for auction, or served with a default notice, the highest level since the 2008 financial crash, according to a Reuters analysis of figures compiled by RealtyTrac, which tracks foreclosures nationwide.

As in the default-ravaged suburban subdivisions of Phoenix, Arizona, and Tampa, Florida, plunging real estate prices are the root of the problem in Beverly Hills.

But the dynamics of the residential real estate collapse are very different in elite neighborhoods such as this. The majority of delinquent homeowners here owe more than $1 million. Many are walking away not because they can't pay, but because they judge it would be foolish to keep doing so.

"It's a business decision, not an emotional one which it is for normal people," said Deborah Bremner, owner of the Bremner Group at Coldwell Banker, which specializes in high-end properties in the Los Angeles area. "I go to cocktail parties and all people are talking about is whether it is time to walk away, although they will never be quoted in the real world."

She said she had seen in Beverly Hills a big increase in "strategic defaults," in which owners who can still afford to make their monthly mortgage payment choose not to because the property is now worth so much less than the giant loan used to buy it during the housing bubble.

Strategic default is an especially appealing option in California, one of only a handful of U.S. states where primary mortgages made by banks are "non-recourse" loans. That means the loan is secured solely by the property, and banks cannot go after a delinquent owner's wages or other assets if they default.

Bremner said she helped a client buy a Beverly Hills mansion last year that the prior owner had bought for over $4 million. He decided to stop paying his $3 million mortgage - even though he could easily afford it - when the value of the property had dropped to $2.5 million.

"They were able to comfortably cover the loan," Bremner said. "They were just no longer willing to see the value of the property drop."

A huge "shadow inventory" is building of elite homes that are in default but have not been put on the market. Of the 180 distressed properties in Beverly Hills, only 12 are up for sale.

The backlog reflects the pent-up flood of foreclosed properties of all price ranges that are expected to hit the U.S. market this year, especially after five major banks reached a $25 billion settlement last week with the U.S. over fraudulent foreclosure practices.

DEFAULTS ON "JUMBO' LOANS SOARING

Across the United States, the largest increase in foreclosures and delinquencies, compared with 2008 levels, is with "jumbo" mortgages - loans too large to be insured by Fannie Mae and Freddie Mac, the government controlled mortgage finance providers. Foreclosures on jumbo loans are up 579 percent since 2008, greater than any other form of loan, according to a report last month by Lender Processing Services, Inc.

Strategic defaults are now more likely among jumbo loan-holders than any other type of borrower, according to a report issued late last year by JPMorgan Chase & Co. Nearly 40 percent of delinquencies among non-governmental mortgages, which are mostly jumbo loans, are strategic defaults, the report said.

"Now that these homeowners with jumbo loans are finding out you can do this, more and more are doing strategic foreclosures," said Jon Maddux the CEO of YouWalkAway.com, which advises homeowners who are "underwater," the term for those whose loans exceed the value of their home.

Nathaniel J. Friedman, a Beverly Hills lawyer, insists he is not a strategic defaulter - that he never missed a mortgage payment in his life. But he stopped making payments on his five-bedroom, six-bathroom Beverly Hills house on Schuyler Road three years ago.

Friedman, who had mortgages totaling $3 million with the now-defunct Countrywide Home Loans, returned home one evening in January 2009 to find a letter from Countrywide freezing his $150,000 line of credit, which was linked to his second $900,000 loan. His primary loan was $2.1 million. The property is worth about $2 million today.

Friedman says he decided to stop paying out of a sense of vengeance from the moment he received that letter. He has been in negotiations for months with Bank of America, which took over Countrywide after its collapse, to modify the loan.

"I thought to hell with it," he told Reuters. "Why should I keep feeding a dead horse if the bank has no confidence in me?"

"I was able to maneuver things my way because of the inertia of the banking sector," Friedman said. He believes the bank will blink first, and eventually modify his loan.

(Reporting By Tim Reid; Editing by Jonathan Weber and Leslie Adler)