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Strategies Being Used to Help Keep Homeowners in Distressed Markets

The movement of big business to lower performing cities and government intervention programs has helped borrowers obtain jobs and avoid losing their home to foreclosure.

By Evan Nemeroff

AFTER THE HOUSING MARKET collapsed nearly five years ago, cities across the country are still going through a recovery effort as 2012 begins to keep homeowners and local businesses from defaulting and losing their properties to foreclosure.

While the national unemployment rate hovering near the 9 percent mark and the economy struggling to find any consistency; property owners are having trouble paying their mortgages and are requesting loan modifications from their lender-servicers.

Detroit has been one of the worst-performing markets during this housing crisis because it relies so heavily on the automotive industry, which failed in 2008, and caused many homeowners to lose their jobs. The city's unemployment rate through October was 12.1 percent and in June 2009 Michigan was the first state where unemployment exceeded 15 percent.

"We've been a one-industry town for many decades and as their [the automotive companies] market share dwindled, Detroit suffered," said David Trott, president and managing attorney of the law firm Trott & Trott. "Unlike some areas of the country where there was a bubble speculators and investors sparked property values. Michigan did not have that run-up in home values that other parts of the country did."

To help the Motor City with its rebuilding effort, several businesses have moved their headquarters to the downtown region and its suburbs over the last few years.

Quicken Loans, the nation's top lender, relocated to Detroit in August 2010. In April 2010, Somerset, N.J.-based IT company GalaxE. Solutions opened an office in the city, as well as the auto loan company Credit Acceptance.

"Downtown is beginning to become a live, work and play urban core that people across the country will be highly attracted to for the incredible opportunity, jobs and growth happening here," said Dan Gilbert, owner and founder of Quicken Loans. "There is nothing more important than transforming Detroit to an exciting place for young, eager, wealth-creating entrepreneurs to embark on their business journeys. More and more people, investors and businesses are joining the initiative to build something very special downtown every single day."

Trott said to revitalize neighborhoods and jumpstart home prices some of his clients are taking foreclosed properties and donating them to the city government. Additionally, government programs have also been created to assist distressed homeowners who are in default and facing foreclosure.

Through the Wayne County Mortgage Foreclosure Prevention Program, which works in collaboration with lenders, investors and local housing agencies, individuals receive education, counseling and intervention services to help them improve their lives during the default foreclosure process. Homeowners obtain mortgage foreclosure assistance, utility assistance, rent assistance, educational programs, food, clothing and other basic family needs from this free program.

"Clearly with a city like Detroit's magnitude, it's not going to be one particular initiative that gets us over the hump. Collective efforts of the private sector and the government working properly on how to deal with these foreclosed properties is going to make the difference," Trott told *Mortgage Servicing News*. "We are making slow and steady progress to help Michigan become one of the best places to live throughout this country," Trott continued. "There are increased home sales taking place and everything is baby steps right now, but we are seeing more people and companies committing to having their presence here."

Cities that are experiencing high foreclosure rates should consider emulating a program that has been a success in Philadelphia.

Established in 2009, Philadelphia's diversion program requires a borrower to meet face-to-face with their lender-servicer's attorney and attempt to reach an agreement to avoid foreclosure. If the two sides fail to resolve their actions at the first meeting, they then have a mandatory supervised conference before a judge to find a workable solution.

According to a study conducted by The Reinvestment Fund called "No Place Like Home: Philadelphia's Approach to the Foreclosure Preventions," 85 percent of homeowners who reached an agreement in the first year of the diversion program are still in their homes in 2011.

Out of 16,000 homeowners who were eligible for this program, 70 percent decided to participate in it during the last three years.

The study said approximately 3,900 homeowners reach some sort of agreement with their lender-

servicer, while 16 percent lose their home at sheriff's sales. Before the program began, 27 percent of homeowners who had foreclosure lost their property due to a sheriff sale.

"Our mission in Philadelphia is simple—early intervention on the legal path to foreclosure and ultimate sale of owner-occupied residences with the hope that homes may be saved—one address at a time," said Judge Annette Rizzo of the Court of Common Pleas in Philadelphia County.

The mediation meetings between the two parties are meant to help homeowners receive mortgage loan modifications or a bridge loan that provides temporary help to borrowers unable to pay their mortgages due to unemployment, sickness, or other reasons beyond their control.

Between July 2008 and June 2010, Philadelphia spent approximately \$3 million annually for foreclosure prevention services to help 11,200 at-risk homeowners stay in their property. The estimated average cost to save a home from foreclosure was \$3,310, the study said.

Rizzo said the diversion program is currently being modeled in Boston, Chicago and Louisville, Ky. She added that attorneys general from several states have inquired about this program and that she has visited judges from Delaware, New York, Maine and South Carolina to discuss the model.

"This program is a success as only 2 percent of its participants ended up in foreclosure," said Deborah McColloch, director of Philadelphia's office of housing and community development. "To replicate this program, cities have to be willing to say it costs money to do this program in order to support it with the proper resources to make sure it works such as counselors, attorneys, outreach workers and a hotline." ♦