

More houses return to lender

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Mortgage owners increasingly stuck with foreclosed homes they can't move at auction By Becky Yerak | Chicago Tribune reporter | August 21, 2008

The number of vacant eyesore homes in your neighborhood could be on the rise.

The reason: At auctions, the last legal step in the home foreclosure process, a growing share are ending up back in the laps of lenders instead of sold to third-party investors.

That can spell trouble for lenders, who find themselves saddled with the added duties of property owner and manager, but also for city and suburban governments and neighborhoods that worry that the properties are more likely to become targets of burglars and vandals, rundown from lack of maintenance and their yards overgrown with weeds.

As the number of such homes increases it can bring down housing values even more.

(Loan Modification Attorney that can assist with avoiding foreclosure - FeldmanLawCenter.com)

The news on which this turns is a report from the Woodstock Institute, a Chicago-based non-profit that promotes community reinvestment, that shows the number of foreclosure filings going to auction in the five-county Chicago area climbed 98 percent between 2006 and 2007, to 13,727. That outpaces the 32 percent increase in foreclosure filings between 2006 and 2007.

Woodstock forecasts the trends continuing this year.

The numbers mean that lenders' increased efforts to modify home loans for delinquent borrowers aren't keeping pace with strapped homeowners needing financial assistance. Lender-owned properties are known in financial circles as "real estate owned," or REO.

"Many lenders aren't in a position to handle large inventories of REO and therefore prolonged building vacancy becomes a real issue" for cities concerned about property values in a shaky housing market, Lee Deuben, of the Chicago Metropolitan Agency for Planning, said in response to Woodstock's report.

Sometimes it's even difficult for local governments to identify a home's lender to deal with property caretaking issues. With the mortgage industry's once-popular practice of securitization—or the process Wall Street used to buy mortgages from banks, bundle the loan payments into bonds and sell the bonds to investors—the "lender" who owns REO property might actually be a pool of investors in a mortgage-backed security.

"REOs often leave municipalities guessing about who actually owns the building because of title issues, how long these buildings will remain vacant, and what strains they might put on municipal services and revenues," said Deuben, whose group is a land-use planning agency for a seven-county area.

Not all foreclosures go to auction.

A property can be sold to a third party for less than the amount owed by the borrower, in what's known as a "short sale," and the lender agrees to consider the sale price as payment in full.

Or "redemption" can occur, in which a borrower can become current on late payments and fees, possibly through a repayment plan or loan modification, such as changing loan terms or extending time periods for stressed borrowers.

To help consumers avoid foreclosure, Mettawa-based HSBC Finance modified 32,288 North American accounts with a value of \$4.8 billion in the first half of 2008. It doesn't break out numbers geographically.

But a group of state attorneys general and banking regulators said there are lots of struggling homeowners. Seven out of 10 "seriously delinquent" subprime loans, for example, aren't in "any sort of work-out process," according to an April report from the State Foreclosure Prevention Working Group, which includes the Conference of State Bank Supervisors.

Indeed, "as the number of foreclosure cases rises and the housing market weakens, the above options have become increasingly limited" and the lender is unable to find a way to keep the borrower in the house, said Geoff Smith, Woodstock vice president and one of the report's authors.

But once a property goes to auction, it increasingly ends up as REO because no third party made a sufficient bid, Smith said.

In 2005, 70 percent of Chicago-area auctions went to the foreclosing lender while 29.5 percent went to a third-party investor.

By 2007, the number jumped to 94 percent, meaning only 6 percent of such properties were bought by third-party investors, according to the report provided to the Tribune ahead of its scheduled release.

Take HSBC Finance. Although the unit of HSBC Holdings PLC has become increasingly focused on trying to keep borrowers in their homes, the value of its REO rose to \$1.14 billion at June 30, up from \$861 million in the year-ago period. In its second-quarter results, the \$150.8 billion-asset lender noted progress in reducing costs was "partially offset by higher REO expenses resulting from current marketplace conditions."

Similarly, Corus Bankshares Inc. lowered its non-interest expenses in the second quarter, but the Chicago-based lender to condominium, apartment and office projects saw REO-related costs—namely real estate taxes and insurance expenses for properties it had foreclosed on—climb in the quarter.

Hudson & Marshall, a Texas-based auctioneer, estimates it has auctioned about 350 foreclosed Illinois properties this year, a 30 percent increase from last year.

"Not only are the auction houses increasing the number of sales per week, but we're seeing a majority of them going back to the lenders due to lack of interest on the part of investors," said Jeff Metcalf, chief executive of Record Information Services Inc., a Kaneville-based compiler of real estate data. Reasons cited include declining property values, little or no equity in properties, and a lack of funding for investors and first-time home buyers, Metcalf added. "It's like a perfect storm."