Q&A Session for Webinar #15 – Foreclosures and Repo's: What Are They Costing You?

Q: If CPI has been added to a loan do you recommend repossession?

A: CPI is a good indication the member may be struggling to make their payments. The correct process is to immediately get a new credit report and compare it to the original credit report. If the score has dropped dramatically and the member is struggling to pay you need to make every effort to get a hold of the member but if it is apparent they are not going to be able to pay try first to get a voluntary repossession and if that does not work out you may have to go and pickup the car.

Before picking up the car you might suggest to the member that their risk score is a strong indication they will probably end up in bankruptcy. If the member agrees and would be in a position to now make their payments because they no longer have those debts then I would allow the member to keep the car.

Q: Hi David, it would be great to have a list of reference sources for the statistics quoted. Great stats and updates but I know I will be questioned on the reference docs.

A: The majority of the statistics all came from articles in the USA Today and other trade magazines. As I read them I cut them out knowing we had the webinar coming up. If you re-watch the webinar you can see at the end of every article where we got it from.

Q: We are a $40m credit union in Idaho and while the national statistics seem frightening we always feel isolated. What resources are available to us to see how all of this is affecting us here locally? Thanks.

A: There are a number of states that are in fact isolated. Most of those states were states that were not dependent upon the automobile industry, nor did they see really accelerated appreciation in home likes states such as Florida and California did. I don't think you need to concern yourself and just be thankful you are in Idaho. You might want to check with the Federal Home Loan Bank Board to see if they have any specific statistics for your state.

Q: How does a Chapter 13 affect a foreclosure? Can we add on legal fees to any amount owed?

A: Normally you will either be considered a priority creditor and I believe you could add on your legal fees and other expenses. In some cases the court will approve you being paid outside of the plan. I would simply check with my local attorney or my league.

Q: How do you suggest we work with members who live out of state & have delinquent mortgages? We cannot bring them in for a sit-down meeting.

A: You are going to have to get them on the phone and you need to make sure they have ample time to discuss this. If necessary send them a copy of their new credit report, make sure you have a list of all their income and treat it as if you were going to make a loan decision to see if you think they are qualified. If it is obvious they cannot make the payments and they cannot come up with additional income then they are going to need to reduce their payments. This can be done by your reducing your payment and your rate for some agreed upon period of time plus we would expect them to get the same reduction from their other creditors. What you would like to get out of this is Direct Deposit so there is no question whatever the new payment is it will be made on time.

There is also another option which is they go bankrupt to get rid of all the other payments so they can afford your payment.

Finally, I cannot stress enough the need for both of you to be open and honest with each other, to have the time to talk and make sure you are both looking at the same credit reports so that we know the arrangement we are making will work.

Q: Suggestions needed for members who are reluctant to come in for a sit-down meeting. How do we convince them it's in their best interest?

A: Most members who are reluctant to do this are either afraid, they have been dodging phone calls sometime now from all their creditors and they are trying to avoid it by not dealing with it. It is a lot more difficult when the members reach this stage. If they will not return your phone calls, write them a personalized letter that is not a standard collection letter. You will want to start the letter out by telling the member you know and understand how difficult their position is, you are not asking them to pay you but instead to sit down with you and go over their circumstances and come up with a good solution. Let them know that you absolutely guarantee them you are not asking them to pay you. Tell them that ignoring it is not going to make it go away and the next step is to go the legal route and then the options go away. I would finish the letter by letting them know that you trusted them and they trusted you when you granted them the loan. Let them know you want to reestablish that level of trust and that this has to be dealt with right away and don’t worry about not having the money to pay you right now.

Q: Would you hire a real estate agent to sell the property or try to sell it ourselves first?

A: I would absolutely try to sell it yourself first. I would do this by offering very attractive incentives as we discussed in the webinar to the staff. I would have racks of flyers that were well done giving all the details of the property and showing what the payments would be and entice them to buy the property with the low payment and special low rate that you would be offering. If you don't require a down payment and you offer a cash rebate so they can afford to get furniture, appliances, etc; then it would be even better. I cannot stress enough that you are not looking to sell this property to some speculator who is going to want to lowball the price so he can make the money. You want to help someone get a home and a nice home at a very affordable payment and you control the financing which gives you a huge advantage. Try to keep your costs down and only use a realtor after everything else has failed.

Q: What is the downside of using a Realtor versus an Asset Manager?

A: An asset manager is going to work for you as your employee and they should be very motivated and should end up costing you less then using a realtor. You would only have an asset manager if you had substantial properties such as real estate and automobiles. We believe that 2008 will be worse than 2007 and that this thing is not going to start to turn around until sometime after the next Presidential election.

Q: Would you recommend that in a foreclosure or default situation that we pay off the first, foreclose on the property, and possibly rent it out until the market turns around?

A: I like the way you think and that very definitely is an option. In my opinion it is a far better option than panicking and doing what everybody else is doing. This will turn around but we may be 18 to 24 months down the road before it happens. Don't give away a good asset when you can afford to sit on it.

Q: Don't you think that the relocation appraisals would be a good recommendation to the credit unions who are looking to have to sell foreclosures? I am a state certified appraiser, real estate broker, as well as the manager of our real estate department. The relocation appraisal takes into consideration not just historical value (that is used in market value) but also takes into consideration the current competition for the house to be sold and gives an estimated sales price for that property in the time frame the credit union is requesting. I use to have to estimate the market value within 3% of actual sold price 90 days prior to sale. Just wanted to add the input.

A: It sounds like your credit union is fortunate to have someone with your background. In this environment there are really two prices you want to look at. The first price is what is called a quick sale price which simply means if we want to unload the property within

90 days what could we expect to sell it for. The fair market value is looked at as a price you could expect to receive in some timeframe between 90 days and 15 months. The problem with appraisals in today's environment is that many lenders are panicking and they have gotten instructions to unload these houses and get whatever they can get. That is going to really bring the price of homes down. There is going to be a number of people who would like to sell but cannot afford to take the loss so therefore they will sit on the property. I believe that is a better strategy right now than giving the property away. Having said that the credit union has to look at what advantages they might have over private sellers or other financial institutions which must unload the property. The biggest advantage we have is that we have a captive audience of members, we can fix these properties up so that they are very desirable, we can market these properties to our own members, and we can include all these costs in the price we are seeking. We also control the funding, the qualifying the member, and we are not dependant upon a 3rd party. We can portfolio these loans without worrying about selling them as conforming loans. We also can offer rebates to help first time home owners who have good qualifications but are short on money an opportunity to not rent and be a homeowner. My fear is that if we accept the reduced appraised values which are not a good barometer then we are going to be giving away these properties. You should be in an ideal position with your background to help the credit union get a good value and help the member get a nice home.

Q: What is your opinion on people just starting out and who want to buy a house. Would it be a good idea to wait and see if prices keep falling or is now a good time to buy with the way the market is currently? I have had questions from our younger members on this subject. By the way, I live in California!!! I look forward to your response.

A: It is my opinion there has never been a better time to buy than right now! If one knew for sure that home prices would continue to fall and that is certainly a possibility then you would say wait. But if you waited and home prices started going up rapidly and this thing turned around then you would say I should have done something when I had the opportunity. If young borrowers have the required down payment with good incomes and they don't have to buy a house based on the contingency of selling their house they are absolutely dealing from strength because of all the houses that are on the market.
