Webinar #15

Presented by Rex Johnson

Foreclosures & Repo's What Are They Costing You?

Awareness

What's Really Going On

Foreclosures rise 58% in first half of 2007

LOS ANGELES

The number of homes facing foreclosure surged **58% in the first six months of the year** from last year, the latest sign of growing problems in the mortgage industry, a data firm said Monday.

In all, 573,397 properties across the nation reported some sort of foreclosure activity in the first half of this year, including receiving notices of default, auction sale notices or being repossessed by lenders, Irvine-based RealtyTrac said.

That was 32% higher than the last six months of 2006.

"We could easily surpass 2 million foreclosure filings by the end of the year, which would represent a year-over-year increase of over **65%**," said RealtyTrac CEO James Saccacio.

California led the nation in foreclosure filings and the number of homes receiving notices. **More than 100,000 properties in the state received notices of default or other foreclosure notices** more than double the year-ago total and an **increase of 80%** from the previous six months, the firm said.

RealtyTrac said that **925,986 foreclosure filings were sent to homeowners** during the first half of the year. Some of those filings targeted the same property, in part because **owners had more than one mortgage.**

That figure was up 56% from the year-ago period and up 39% from the last six months of 2006, the firm said.

Notices of default, the first step in the foreclosure process, accounted for the largest slice of filings during the most recent period, a total of 416,937.

The national foreclosure rate through the end of June was one filing for every 134 U.S. households, the company said.

In the past, RealtyTrac released the total number of foreclosure notices issued and did not say if a single property received more than one notice. The company is now breaking out the exact property count.

In recent months, the mortgage industry has been rocked by defaults and foreclosures, primarily driven by borrowers with subprime loans and adjustable rate mortgages.

Last week, Countrywide Financial cfc one of the biggest mortgage lenders in the U.S., said even some of the most creditworthy borrowers were having trouble making their mortgage payments.

Lagging home sales and flat or decreasing home prices have made it more difficult for homeowners who fall behind on payments **to sell their homes** and clear the debt, spurring the rise in foreclosure activity.

In the report, Florida **was the No. 2 state for homes in some stage** of foreclosure, with a total of **64,250**, an increase of **77% year-over-year and up 41% from the last six months of 2006. Ohio ranked third with 44,594 homes,** followed by **Texas with 41,592** and **Michigan's 40,175,** the firm said.

Nevada, Colorado and California had the highest foreclosure rates, given the total number of households.

Among the states with the highest number of homes receiving foreclosure-related notices were **California, Florida, Texas and Ohio,** the firm said.

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Bonfire of the homebuilders

By rushing into lending, homebuilders helped fuel the housing crisis

Greed & Lies

By Mara Der Hovanesian
Business Week Updated: 4:43 p.m. CT Aug 10, 2007

Elizabeth and Armando Motto are living a real estate nightmare with a new breed of monster: the big homebuilder as lender. In November, 2005, the couple, who have four children, agreed to pay $540,000 for a newly built three-bedroom house in suburban Clarksburg, Md., near Washington, D.C. Rather than send them to a bank, the builder, Beazer Homes USA Inc., offered to provide a mortgage itself in an arrangement of the sort that helped fuel the long housing boom across the country.

But when it appeared that the Mottos might not qualify financially for the loan, things took a troubling turn. Beazer, according to the couple, inflated the pair's earnings in loan-application documents by incorrectly stating they were collecting rental income from the house they were leaving. "I don't want to misrepresent myself," Elizabeth said in e-mail correspondence with Beazer's outside mortgage service, dated July 14, 2006. But in the end, the couple signed the documents, and soon after they closed on the Clarksburg house.

They now regret it. The Mottos moved to Clarksburg, but they haven't succeeded in unloading their previous home in Rockville, Md. They have nearly $1 million in mortgage debt on the two dwellings. With $145,000 in family income, Elizabeth says, they are "on the brink of foreclosure" on both houses. "We are so broke."

Beazer, one of the dozen or so large publicly traded builders that have started or stepped up mortgage-lending businesses to put more buyers in freshly finished houses, declines to discuss specific customers. The Atlanta company has much more than the Mottos to worry about. On Aug. 1 its stock fell nearly 18 percent on rumors that it was preparing to file for Chapter 11 bankruptcy court protection — which Beazer swiftly denied, calling the Wall Street gossip "scurrilous and unfounded." Just five days earlier, Beazer revealed that the Securities & Exchange Commission had elevated an informal inquiry into its mortgage business to a formal investigation. The company warned that criminal penalties could follow. Earlier this year, Beazer received a subpoena from the Justice Dept. seeking documents related to its home loans, and the company is also under civil investigation by the North Carolina Attorney General's office.

Leslie H. Kratcoski, Beazer's vice-president for investor relations and corporate communications, says in an e-mail that the company "intends to continue to fully cooperate with all related inquiries but does not have further comment at this time."

Egged on by Wall Street

WOW!

A diverse cast of characters combined to launch the once-in-a-lifetime housing boom of the past five years. Traditional mortgage companies and banks unleashed a barrage of loans, many to borrowers with iffy credit histories who didn't bother to read the fine print about upwardly mobile interest rates. Wall Street egged on the often-reckless underwriting by buying vast quantities of home loans for repackaging as securities. Now that the boom has fizzled and foreclosure rates are rising, the important role of large homebuilders as lenders is also coming into sharper focus.

In addition to spitting out subdivisions, many of which now stand half-empty, builders jumped into the mortgage business to a degree they never had. Wall Street provided the same encouragement it offered other lenders. Even as the housing supply began to exceed demand last year, builders kept sales brisk by pushing adjustable-rate, interest-only, and other risky loans. In some cases they attracted clientele who couldn't afford conventional mortgages. In others, builders allegedly violated federal lending standards to get customers to sign on the dotted line. KB Home paid a record $3.2 million settlement in July, 2005, to resolve allegations by the Housing & Urban Development Dept. that the builder's mortgage unit overstated borrowers' income, among other practices, to obtain loan approvals. KB, which denied wrongdoing, sold its loan business before settling.

"Homebuilders really started to push these more aggressive mortgages down the throats of potential buyers to boost sales," says G. Hunter Haas IV, who as head of mortgage research and trading for Opteum Financial Services had an insider's perspective on the proceedings. Opteum has served as a middleman between Wall Street and builders. The Paramus, N.J. firm provided developers with financing for their mortgage operations, then resold the loans to investment banks, which packaged them as securities and hawked them to hedge funds and insurance companies. The whole process added liquidity to the market and made it easier for developers to build and sell expansively.

But by early this year, Opteum's home-loan business was going sour. The investment banks and their clients were rejecting builder-originated loans as too shaky and likely to go into default, Haas explains. Some homes were turning out to be worth less than builders had claimed, and some borrowers didn't have the income noted on applications. "Homebuilders were getting sloppy, and Wall Street was giving more scrutiny," Haas says. In June, Opteum decided to get out of home-loan brokering.

Until the market turned, the growing heft of the largest developers made it easier for them to obtain Wall Street financing for their mortgage businesses. Once dominated by modest local firms, the industry in the past two decades has seen the emergence of sizable publicly traded corporations such as Pulte Homes, Lennar, and Centex, each of which has a market capitalization of $7.5 billion to $8.5 billion. The 10 largest builders together had revenues of $98.8 billion last year, up from only $9.3 billion in 1992. Public companies built 27 percent of all new homes in 2006, compared with 8 percent in 1992. And in Denver, Las Vegas, and Phoenix—markets that were scorching hot until recently —public companies put up 55 percent or more of the new houses.

Busy developers that provided Wall Street with equity-underwriting business discovered they had friends in the investment banking world. "Once builders got larger and a little bit more predictable, they were able to borrow money from various credit markets, borrow from Wall Street, and expand more easily," says Thomas W. Smith, a building industry analyst with Standard & Poor's Equity Research, which like BusinessWeek is owned by The McGraw-Hill Companies.

For a while during the boom the big builders could do no wrong in Wall Street's eyes. The Dow Jones U.S. Select Home Builders Index surged 290 percent from October, 2002, to July, 2005, as the profits of the 10 biggest developers more than tripled. But the pressure to beat quarterly expectations didn't relent when more and more new subdivision homes remained empty. Providing loans to financially marginal buyers was one way some developers tried to prop up their financial performance, says S&P's Smith. "You're trying to support earnings at high levels, so it's conceivable that greed gets into people's minds," he adds.

Greed!!

Now the bust is taking a brutal toll. In January, industry analysts predicted that the 10 biggest builders would have average earnings per share of $3.69 for 2007; the latest forecast is for a loss of $1.18.

Sheer overbuilding, a symptom of every housing bubble, is the most obvious explanation for the new ghost towns sprinkled around the country. But increased builder lending helped feed the trend. Statistics are scarce because developers don't break out their lending revenues, but some analysts track "capture rates," or the percentage of home sales financed by builders themselves. Pulte Homes, the largest developer by market cap, had a capture rate of 90 percent last year, up from 64 percent in 2000, according to Daniel Oppenheim of Banc of America Securities. No. 3 Centex had a rate of 80 percent for the fiscal year that ended in March, up from 61 percent.

By the time marginal buyers fall behind on their payments, the builder has usually sold off their loans to Wall Street. But the human fallout can be found in neighborhoods around the country.

Lies!!

Several developments built recently near Columbus, Ohio, by Dominion Homes Inc., are scarred with empty houses, overgrown yards, and front windows with neon-orange foreclosure stickers. Dominion often offered "buy-down" mortgages in which it forgave or reduced early payments, according to borrowers. One young couple, Travis and Kelly Gunther, say this enticement helped persuade them to borrow all of the $180,300 they paid in 2004 for a Dominion home in a neighborhood called Williams Creek. Kelly has worked intermittently as an executive assistant; her husband, a plumber, recently went to Iraq to work for a private contractor. Kelly claims Dominion told her the couple's initial monthly payment of $1,160 would rise $100 a year, to $1,360 in 2006. In fact, the payment rose by more than $200 a month each year, to $1,599. She says Dominion salespeople described annual homeowner association fees of $50 a year that ballooned to $285, while taxes turned out to be double the company's projection.

Although she feels misled, Kelly concedes that she and Travis didn't carefully scrutinize the fine print spelling out their loan terms. "I wanted the house with the tree-lined streets," she says. Earlier this year the Gunthers lost their Dominion home in a foreclosure and are moving to a nearby rental apartment.

Adrian Lee, a firefighter in Pataskala, Ohio, is negotiating to avoid foreclosure on the new four-bedroom house he bought from Dominion in 2004. "I know I'm in too much house for what I can afford," he says. Admitting that he shares blame for his predicament, Lee says of the Dominion sales team: "They didn't explain the [$163,800] loan to me. I didn't know after the buy-down mortgage that my payment would be so high. The same people who help you get a home won't help you maintain and keep it."

The foreclosure next door

Lori M. Steiner, a senior vice-president with Dominion, says in an e-mail that the Dublin, Ohio company doesn't discuss individual customers. But Dominion says it diligently reviews each sale to make sure buyers are financially prepared to take on the mortgages they seek. The company says it has done extensive research in the Columbus area and that the spike in foreclosures there reflects broader economic problems that have nothing to do with its financing business. Ohio, hurt by a loss of manufacturing jobs, has one of the highest foreclosure rates in the nation, along with California, Florida, Michigan, and Texas.

Even some home buyers who are content with their loans claim they've been injured by builders' lending to others. Robert V. Phillips, a lawyer in Rock Hill, S.C., represents residents of a subdivision in Columbia, S.C., who allege in a federal court suit that the value of their homes has fallen as a result of foreclosures stemming from Beazer's reckless mortgage practices with other customers. The suit, which seeks class-action status, claims that Beazer salespeople encouraged prospective buyers to "falsify information on loan applications." This made it "inevitable that the subdivisions...would experience a foreclosure rate which significantly exceeds the statewide average," and that has hurt the value of the plaintiffs' houses, the suit alleges.

Beazer has filed a motion to dismiss the action, noting that the plaintiffs don't claim to have been misled or directly harmed by the company. "The complaint," Beazer argues, "is based upon speculative allegations of causation and conclusory statements.“

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Foreclosures Continue to Skyrocket

More People Struggle to Pay Mortgages

abcNEWS

By SCOTT MAYEROWITZ
ABC NEWS Business Unit July 30, 2007 —

The number of people struggling to pay their mortgages has skyrocketed in the first half of 2007, according to new data released today by RealtyTrac.

During that time period there were 925,986 foreclosure filings -- default notices, auction sale notices and bank repossessions -- on 573,397 properties nationwide, up more than 30 percent from the previous six-month period and up more than 55 percent from the first six months of 2006.

Foreclosures and the general slowdown in the housing market were key factors in last weeks sell-off on Wall Street.

RealtyTrac, a marketplace for foreclosure properties, said that the foreclosure rate is one filing for every 134 U.S. households for the first half of the year. Properties often have multiple filings as they move through the foreclosure process.

"Despite a slight drop in June, foreclosure activity shows no sign of slowing down," James J. Saccacio, chief executive officer of RealtyTrac said in a statement. "Based on the rate of foreclosure activity in the first half of 2007, we could easily surpass 2 million foreclosure filings by the end of the year, which would represent a year-over-year increase of over 65 percent."

Many homeowners, particularly those with poor credit, are finding it harder and harder to make mortgage payments. Many of them have variable rate mortgages and are now starting to see those interest payments increase, leading to some of these defaults.

Nevada, Colorado and California had the highest foreclosure rates.

Nevada is No. 1, posting the nation's highest foreclosure rate, with one foreclosure filing for every 40 households during the first half of 2007. Colorado reported one foreclosure filing for every 60 households and California had one for every 69 households, RealtyTrac said.

Other states with foreclosure rates among the Top 10 included Michigan, Florida, Ohio, Georgia, Arizona, Connecticut and Indiana.

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Summary of What's Really Going On

1. Home Inventory: 9.2 month supply on single family and 12 months supply on condos.

2. Median Price: Down for a record 12 months in a row.

3. Sales: Existing home sales fell in July to their lowest level in five years.

4. Expectations: Worse news lies ahead
   - More foreclosures.
   - Fewer qualified buyers.

5. Auto Sales:
   - Expected to drop 10% compared to last year.
   - Homeowners feel less secure.
   - Weakest in Florida, Nevada, and California.
   - Consumers afraid to buy when they see the value of their house drop.
   - Consumer confidence down 6.9%.
   - Adjustable rate mortgages are starting to re-price leaving consumers less money for other purchases.

6. Home Equity Loans:
   - They were really easy to get.
   - Some lenders have stopped offering home equity lines of credit all together, even to borrowers with good credit.
   - Lenders offering home equity loans are now being a lot more selective.

- Delinquent home equity lines of credit (90 days and greater) jumped 16.6% in the 2nd quarter.
- Consumers with lower credit scores are going to find it a lot harder to obtain an equity loan.
- Lenders are going to be less willing to use an “automated valuation model” or AVM. Instead they want a full appraisal.
- Lenders who are still offering equity loans are raising rates (supply and demand). Limited supply and less demand.

6. Credit Card Debt:
   - Home ownership used to be an easy refuge from credit card debt. No longer, why?
     - Many lenders have stopped offering home equity loans.
     - Others have tightened standards.
     - Members with less than perfect credit will find it difficult to qualify.
     - Home prices dropped, reducing what equity they may have had.
   - Level of credit card debt that shifted to home equity loans. Since 2001, more than 350 billion in credit card debt was shifted into home equity loans.
   - Delinquencies on credit card debt are rising. Since members can no longer shift that debt and don’t have the money to pay, delinquencies on credit card are starting to escalate. Many Americans were able to make the minimum payments but no more. They lost their safety valve.
     - First five months of this year, credit card delinquency was 3.77% higher than a year ago.
     - Late card payments soared 30%.
     - From 2000 to 2006, the average credit card debt carried by a consumer rose from $7,842 to $9,659.
     - 88 million Americans now owe 850 billion in credit card debit.

The Perfect Storm

- Home mortgage payments are re-setting and going up.
- Home equity loans are harder to get and more costly.
- Credit card payments doubled and there is no bail out.
- The sub-prime market has collapsed and eliminated many borrowing options.
- 1990 average credit card debt $2,966
  2006 average credit card debt $9,659
- Average loan to value on a car loan:
  2002 = 91%
  2006 = 118%
- Punitive interest rates on credit cards are now up to 33%.
- Surveys have showed that 1/3rd of all card holders acknowledge they use their cards for purchases they cannot afford.

States That Are Hardest Hit

- Michigan
- Ohio
- Indiana

The Economy

- California
- Florida
- Nevada
- Arizona

The Great Gold Rush

- Overbuilt
- Over-financed
- Lots of sub-prime loans

Credit Union Strengths

Opportunities

Fed: Banks tighten subprime lending standards

WASHINGTON (AP) – A majority of the nation's banks have tightened lending standards on suprime mortgages, the Federal Reserve said Monday in a survey that provided further evidence problems in mortgage lending

The Fed said it found that 56.3% of banks responding to a survey reported that they had tightened their lending standards for subprime mortgages, loans offered to borrowers with weak credit histories.

The survey found that 40.5% of banks responding said they had tightened loan standards for so-called non-traditional mortgages. The Fed defines this category as adjustable-rate loans with multiple payment options, interest-only mortgages and products referred to as "Alt-A" loans that offer such features as limited verification of incomes.

The Fed survey found that even on prime loans, which offer tradition payment options such as 30 year mortgages to borrowers with strong credit histories, 14.3% of banks responding said they had tightened their lending strategies "somewhat".

The Fed's latest quarterly survey of bank loan officers found them responding to growing troubles in subprime mortgage lending. The Mortgage Bankers Association reported recently that the percentage of subprime loans that were 30 or more days past due climbed to 15.75% in the first three months of this year, a record high and up from 14.4% in the final three months of last year.

The crisis in subprime lending has sent shock waves through other parts of the financial system and caused big drops in the stock market in trading last week as investors worried about whether an expanding credit crunch could do serious harm to the overall economy. The Fed joined with other central banks around the world to add extra money to the banking system in an effort to bolster confidence.

The crisis reflects an overall slump in the housing market following a boom period in which sales and home prices had soared.

With sales now falling and prices stagnant, potential buyers are having trouble getting loans because of tighter lending standards, a development that many economists fear will make the housing slump even worse.

The Fed survey said that 38% of the banks responding had reported weaker demand for traditional mortgages, while 44% that offered subprime loans reported weaker demand for those loans.

The Fed last week kept a key interest rate unchanged while noting tighter credit conditions for some households and businesses.

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Lenders Cut Back, Tighten Terms

By Becky Yerak, Tribune staff reporter. Tribune staff reporter William Sluis and Bloomberg News contributed to this report. August 7, 2007

Once seemingly confined to subprime lending, problems in the mortgage industry showed signs of spreading to more –creditworthy borrowers Friday, triggering concerns about the potential fallout on the real estate market.

Wells Fargo & Co., the nation's No. 2 home lender, stopped making certain loans to consumers with near-prime credit or prime borrowers who don't document their earnings. Wachovia Corp., the nation's fourth-biggest bank, also cut back some of its lending activity to consumers previously considered good credit risks.

Others imposed drastic hikes in interest rates in a matter of hours, and some took a breather from doing originations.

"As a result of market volatility, UBS Home Finance will be unable to accept any new loan applications today," the lender said in a Friday afternoon e-mail to clients. UBS, however, plans to begin taking applications again Monday.

Some real estate industry observers expect the upheaval to continue.

"The real estate market hasn't had a lot going for it, and not it's not likely to for some time," said Paul Kasriel, chief economist for Chicago-based Northern Trust Corp.

The housing market suffered a 15 percent drop in the sale of single-family homes from mid-2005 to mid-2006. The situation had appeared to hit bottom until last March, when the industry took a turn for the worse that has not abated, on observer said.

"Since March, we've had a significant decline that is very likely due to tighter credit conditions," said Richard DeKaser, chief economist for National City Corp.

Opportunities

Quotes

1. *"If there's higher pricing of credit, it's tougher for people to borrow money which makes home sales weaker which affects prices."*

   Opportunity

   - Credit Unions have money to loan.
   - Credit Unions can decide on:
     - Pricing.
     - Their appetite for risk.
     - Down payment requirements if any.
     - Interest rate structure.
     - Affordable payments.
   - We don't have to sell these loans on the secondary market, we can keep these loans.

2. *"Even shoppers for pricier homes have been caught in the middle as a rising number of mortgage lenders:*
   - Stop making loans."
   - Drastically raise interest rates on jumbo mortgages."
   - One institution raised the jumbo rate on a 30 year fixed jumbo loan to 8% from less than 7, even to the most credit worthy buyers.
   - $417,500+ is the benchmark for government chartered agencies such as Fannie Mae.

<u>Opportunities</u>

- On more expensive homes, the credit union can decide:
  - o Do I want to pay off the first mortgage?
  - o If we have the first, can we offer special financing making these homes:
    - More affordable.
    - Easier to qualify.
    - The credit union keeps the loan as opposed to losing big money by giving it away.

Strategy

To Repo or Not to Repo

Sam Walton said,

"When everyone is going in one direction, the real opportunity is the other direction."

What financial institutions are doing:

- Tightening up on loans.
- Reading the newspaper.
- Taking the easy way out; the path of least resistance.
- Panicking.
- Losing big money.

A New Approach

- Identify early on (collectors and lenders) that you may have a problem.
  - Is the member starting to miss payments?
  - Have they been in to apply for a loan and were denied due to excessive debt?
  - Are they using courtesy pay or pay day lenders?
  - Do they have large limits and balances on their credit cards and are making minimum payments?

- I cannot emphasize enough that the "perfect storm" is out there and gaining in intensity. When you see any of these symptoms, you must:
  - Get a new credit report and focus on:
    - How their debt level has changed?
    - What happened to their risk scores?

Use the following strategy

1. Identify who's a problem up front. If you see or suspect the member is getting into trouble you must do "Preview of Coming Attractions."
   - Get the member in the office.
   - Have a new credit report and compare it with the original credit report.
   - Show the member the changes.
   - Empathize with the member, they are probably worried and are afraid they'll lose their home plus they may be getting less than friendly calls from their creditor.

   Discuss all the options

   - Do they want to stay or have they given up?
   - How long have they lived there?
   - Do they like their home?
   - How much can they afford a month?
   - What would they have to pay if they rented somewhere else? (They need to understand and so do you that they probably are not going to live free somewhere for an extended period of time.

   - Would a debt counseling agency (like consumer credit counseling service) be able to get their payments lowered.
   - If they had no other debt (they elect to go bankrupt) would they be able to make their mortgage payments and car payments.

2. It's yours, I don't want the house, I'm unemployed and moving, I can't afford it. Now what do you do? I highly recommend you learn how to dispose of collateral without giving it away.

You Need a New Approach

Mortgage crisis

Lender to redo $16B in loans

Countrywide to modify or refi ARMs for 82,000 borrowers who face foreclosure

By Noelle Knox
USA TODAY

Countrywide Financial plans to announce today that it will restructure or refinance $16 billion in adjustable-rate mortgages that have recently reset to higher rates or will reset by the end of next year, stretching some homeowners to the breaking point.

Its plan comes as the mortgage industry tries to head off mounting political and public pressure and an alarming foreclosure rate.

Countrywide, the nation's largest mortgage lender, says its program will help about 82,000 borrowers, mainly those with "subprime" credit.

"Changes in the housing market have occurred, and the trends are weakening," David Sambol, Countrywide's president, said in an interview Monday. "Our leadership position in the marketplace requires us to do more.

"Our desire to help our borrowers very much aligns with our interests: helping people stay in their homes and avoiding foreclosure losses for our company and our investors."

The plan would benefit Countrywide borrowers who:

► Are in default on their loans because of an interest-rate reset in the past few months. Countrywide will send a letter offering to roll back their rate to the previous, lower level. Countrywide expects to modify 10,000 of these loans, totaling $2.2 billion, by the end of this year.

Loan market stressed
■ Far-reaching impact, 1B

and are unable to refinance. Countrywide will modify the loan to a rate that will keep borrowers in their homes. The lender says it expects to modify 20,000 loans totaling $4 billion through the end of next year.

Those borrowers who fall behind because they've lost their jobs and lack enough income to keep up with a mortgage won't qualify.

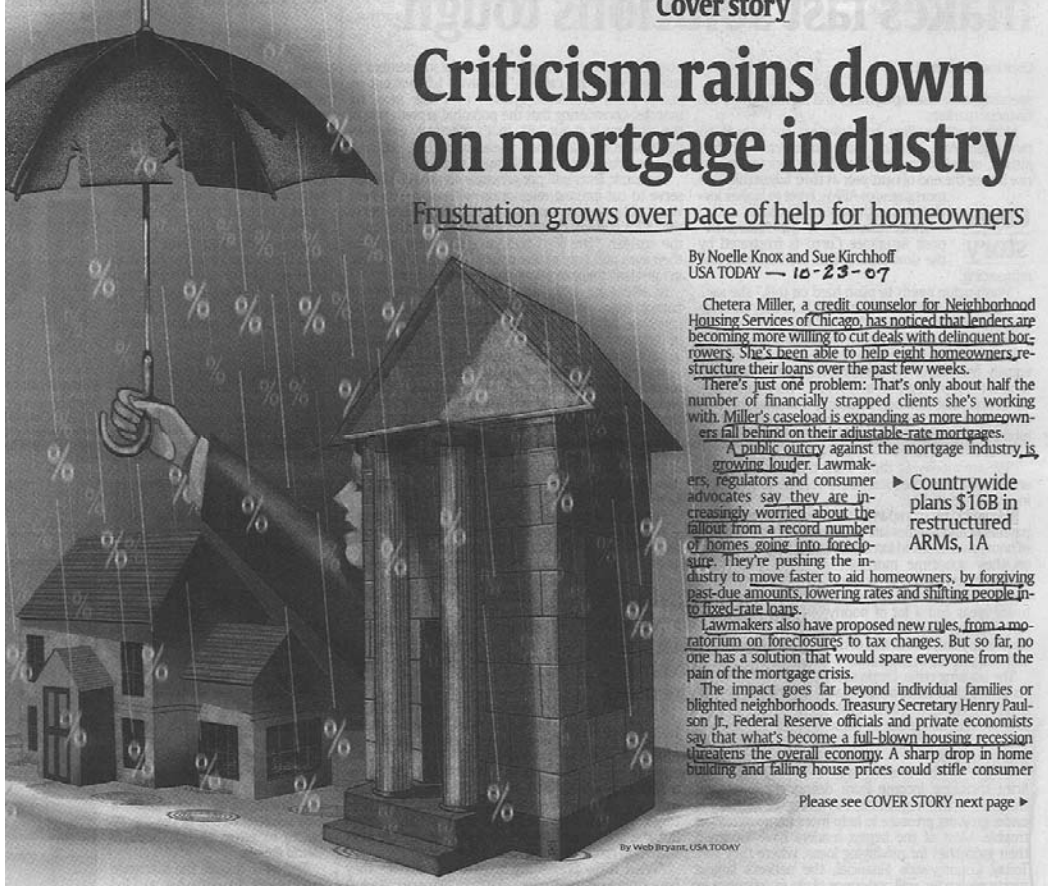
► Had subprime credit but have been making payments on time. Countrywide will offer to refinance them into a lower-interest "prime" loan, or a mortgage insured by the Federal Housing Administration, Fannie Mae or Freddie Mac. The lender estimates that about 52,000 borrowers would qualify for a new loan, and it expects to refinance $10 billion in mortgages.

These borrowers, however, will have to pay the fees to refinance their loans.

Josh Fuhrman, director of counseling for the Homeownership Preservation Foundation, said, "There are a lot of new options and products coming out right now. ... A lot of the other (loan) servicers are starting to be more flexible, but (Countrywide's plan) is pretty specific and looks on the surface to be pretty solid."

The mortgage industry is under pressure from politicians, regulators and consumer advocates to speed up and boost the number of loan modifications for homeowners in trouble.

Last week, Treasury Secretary Henry Paulson warned of an "immediate need" for more loan restructurings and modifications.



Cover story

Criticism rains down on mortgage industry

Frustration grows over pace of help for homeowners

By Noelle Knox and Sue Kirchhoff
USA TODAY — 10-23-07

Chetera Miller, a credit counselor for Neighborhood Housing Services of Chicago, has noticed that lenders are becoming more willing to cut deals with delinquent borrowers. She's been able to help eight homeowners restructure their loans over the past few weeks.

There's just one problem: That's only about half the number of financially strapped clients she's working with. Miller's caseload is expanding as more homeowners fall behind on their adjustable-rate mortgages.

A public outcry against the mortgage industry is growing louder. Lawmakers, regulators and consumer advocates say they are increasingly worried about the fallout from a record number of homes going into foreclosure. They're pushing the industry to move faster to aid homeowners, by forgiving past-due amounts, lowering rates and shifting people into fixed-rate loans.

▶ Countrywide plans $16B in restructured ARMs, 1A

Lawmakers also have proposed new rules, from a moratorium on foreclosures to tax changes. But so far, no one has a solution that would spare everyone from the pain of the mortgage crisis.

The impact goes far beyond individual families or blighted neighborhoods. Treasury Secretary Henry Paulson Jr., Federal Reserve officials and private economists say that what's become a full-blown housing recession threatens the overall economy. A sharp drop in home building and falling house prices could stifle consumer

Please see COVER STORY next page ▶

By Web Bryant, USA TODAY

"It Is What It Is"

Question is "Do you know what it is?"

Show me the money.

- The credit union has the money.
- The credit union controls the rates and the terms.
- The credit union controls the decision, they can say "yes or no" with nobody's approval but theirs, nobody. This gives you a tremendous advantage over your competitors.

What are you competitors doing?

They are all imitating each other. Selling the homes as foreclosures and not credit union pre-owned homes and selling cars as repos and not credit union pre-owned cars.

As a result, they are getting foreclosure prices and repo prices.

If what you are doing is working great, then don't change a thing.

If you are tired of losing money, then I highly recommend you follow Sam's rules and quit doing it like everyone else.

Step #1

Will they talk to you? If not, what are you doing about it. If necessary, get in your car and pay the member a visit. It does not matter whether it's a repo or foreclosure. To often we react and make big decisions without putting forth the effort to see and talk to the member.

Step #2

Look at all your options don't just try to get even.

- Reduce payments.
- Waive interest
- Repair the car/house or pay the back taxes on the house if the member is trying.
- Preview of coming attractions (new credit report and application).

What I'll end up with if I play hardball.	What I'll end up with if I co-operate.

Remember "it is what it is".

- Everybody pays somebody. The question is can you be that somebody that gets paid.

Step #3

What you should want in return.

- If you pay the back taxes, repair the auto, get the first mortgage current or pay off the first mortgage, get the member to agree to direct deposit and unload the debt that kept them from paying in the first place.

As an example:

- What other assets do they own you can use to improve your position.
- If they are not going to make it, they have too many debts, they have no assets, no one is going to die and they are not going to inherit a lot of money. Plus they've tried Vegas, and that did not work but they still do not want to lose their house or car, then bankruptcy may be their only answer. You cannot recommend it, however you can understand why they may use this option.

Step #4

Who is your target market.

- First time buyers with great jobs who have not saved money for a down payment or furniture.
- Couples who would like to upgrade to a larger house due to an expanding family.

Step #5

What's in it for the member. A fresh start. If your collateral is their car and they're way upside down but they can afford the payments if they are debt free by going bankruptcy, then you'll:

- Be there holding their hand.
- They can re-affirm with you and keep their relationship with you.
- They can then find a new or nice used car. You'll help them get a great deal because they have cash (your cash) to pay for it. They may still be upside down but now they'll be upside down in a car they like and is dependable. Since they are debt free, they can afford it. You must be actively involved on the front end, helping them make the right decision.
- If it's their house and not their car, once they're debt free and provided they have a good job that will likely continue and you get direct deposit, then let's talk about a home improvement loan after the bankruptcy.
  - New appliances if needed.
  - New carpet and paint if needed.
  - Repairs, remember it's your house and you control the funds, plus you write out all the checks.

Why would we do this?

The member is going to want to do it on their own once they are debt free. Someone will be willing to help them. The problem is:

- The member will feel desperate and take whatever they can get.
- Others will take advantage of them and they'll make a bad decision, plus probably end up paying 25% to 30% interest. You can keep this from happening if you really want to help your members provided you get involved on the front end.

Step #6

My member has no job, is not co-operating, has moved and left me the keys to the house or car or we had to get "Bubba" to go get the car, so now what do I do.

Remember two simple rules:

- If you wouldn't buy it, live in it or drive it, why would anyone else.
- Somebody is out there just waiting to make money off of you, the vultures are circling over the dead carcasses.

Incentives you can offer to sell your Credit Union Pre-Owned Homes

Cover story

Home builders' foundations shift with shaky market

By Lisa W. Buser for USA TODAY

Happy with incentives: David Smith, who bought a Reeves Williams home in Mississippi, says freebies swayed his decision to buy. "The fact that I could get a house and not have to buy a fridge, washer or dryer, it was significant to me," he says. He received $4,500 off the price of the home and $4,000 in closing costs.

Wrenching decisions about layoffs, cutbacks await many

By Noelle Knox
USA TODAY

Even as home buyers were being offered a free washer, dryer, refrigerator and window blinds, plus 5% off the price or in cash to pay closing costs, business was dragging at Reeves Williams' communities.

So at the end of July, Reeves Williams, a home builder in the South, began offering $20,000 in incentives or cash assistance. In the first week, 22 buyers had signed contracts for new homes. Then the mortgage market fell into a tailspin.

"We lost 17 of them. It was a huge hit," says Martha Fondren, vice president of sales. "It was a credit issue. They did not have horrible credit. But they didn't have the credit scores to get (a loan), and six months ago they would have." NOTE

Since early August, the real estate market has sunk deeper into recession. Forecasts of a recovery have been pushed back to the middle of 2008 — at the earliest. For home builders, market conditions are already worse than in the last housing recession, in 1991-92.

And depending on how the subprime mortgage debacle plays out in coming months, this recession could be more painful for the industry than the wicked one in 1980-82.

"Based on activity since early August, our experience is worse" than the past two corrections, Robert Toll, CEO of Toll Bros., told investors at a recent Credit Suisse conference.

Sales of new homes fell in August to their slowest pace in 12 years, and the median price fell 7.5%, the sharpest annual drop in 37 years. The confidence level of builders has fallen to its lowest since the last housing recession.

"Who can't be concerned, with what we're looking at right now?" Toll says.

Please see COVER STORY next page ▸

More builders woo home buyers

A rising number of home builders are cutting prices and offering incentives to clear an eight-month supply of new homes for sale:

Strategy	Aug. 2007	July 2006
1 Include optional items at no charge	57%	51%
2 Pay closing costs or fees	46%	38%
3 Reduce home price	52%	37%
4 Absorb all financing points for buyer	28%	23%
5 Help buyer sell existing home	17%	NA
6 Trade-in programs	16%	5%
7 Delay monthly mortgage payments	9%	2%
8 Match future price reductions	6%	2%
9 Include car with home	2%	0
10 Guarantee buyback at original contract price	3%	1%
11 Offer free holiday trip	2%	NA

Source: National Association of Home Builders survey of 345 builders

- – It's your asset, invest in it. If it's a house then:
  - Re-carpet, if necessary.
  - Repaint.
  - New appliances if needed.
  - Hire a home inspector to tell you what you need to do.
- – Raise the price to include the money you spent.
- – Employ your own handyman.
- – Remember, the buyer is buying it "as is" will have to do this anyway and may not have the money, you have lots of money.
- – Keep a list of everything you spent on the house, showing the new buyer what they are getting and what it cost. It won't increase the new buyers payment that much since it's built into the payment.
- – Get some landscaping done and keep it done, you don't want it to look like a foreclosure.
- – Hire a neighbor. Give the neighbor a set of keys, if you can trust the neighbor, to keep an eye on the property so it's not vandalized, or you are not surprised by busted water pipes, etc… The neighbor makes a $100 a month for just being "nosey". Tell them about your special $2000 incentive if they can find you a buyer. Remember, they will be motivated because it's their new neighbor or maybe they'll want to buy the house for themselves.

If it's a car.

- Invest in it. It's your asset.
- Get all repairs done.
  - Keep a list of every dollar you spent and show the new buyer.
  - Have a diagnostic check done showing every problem was dealt with.
- Find yourself a good autobody and repair shop. Build a relationship with the autobody and repair show and show them how you will both benefit. Negotiate a good price since you will send them lots of business.

Step #7

Disposing of the collateral.

- Rebates - $5000 (furniture).
- No money down.
- Special rates the first five years.

NOTE: Raise the price of the house to offset what the reduced rate will cost you.

- Get employees to help you sell it. Employees earn a $2000 incentive for every credit union pre-owned home they sell. Employees also earn a $250 incentive for every pre-owned car they sell.
- Advertise, flyers in the lobby.
- Detail cars, don't make it look like a repo lot with broken down, ugly cars next to a nice car. Keep them cleaned up in a nice location with a big price on the windshield and a list of everything that was done.

Step #8

Hire a full time employee, an Asset Manager.

- They will be responsible for all credit union owned homes and cars.
- Must have sales/marketing background.
- Reports directly to C.E.O.
- Pay them a nice incentive for disposing of the asset based on the price they are able to negotiate.

Home

100% of outstanding balance = $2000

90% of outstanding balance = $1000

80% of outstanding balance = $500

Note: Balance of home must be a minimum of $10,000 to qualify for incentive.

Car

100% of outstanding balance = $500

90% of outstanding balance = $250

80% of outstanding balance = $100

Note: Balance of car must be a minimum of $2,000 to qualify for incentive.

Step #9

What's the first thing you do?

- LSCI will review a substantial number of foreclosures and repo's where you have a significant amount of money outstanding. We call this our Foreclosure/Repo Analysis. We will be able to identify the following:
  1. Did we make a mistake right upfront with the decision we made?
  2. Where there warning signs our employees missed that should have been seen?
  3. Did the collectors identify the problem early or did they actually add to the lose by procrastinating?
  4. Did we lose money in disposing the collateral?
  5. How do we keep from losing money in the future?

The entire cost for the above is only $2500 which is far less than you lose on one repo. If you are not happy with our work, as always, it FREE.