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Foreclosures Still Accelerating

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Chicago—Experts in both servicing and origination last month had seen some signs of improvement in the housing market but questioned the extent to which these might stabilize foreclosures during a roundtable at the Mortgage Bankers Association's National Secondary Market Conference here.

Excerpts from that discussion that follow are based on a discussion between (above, from left) Scott Stern, chief executive officer and founder of Lenders One mortgage cooperative; Mike Margolf, executive director, AllonHill; Ed Fuchs, chief financial officer and head of capital markets at NetMore America; Les Parker, president of Parker & Co.; and Nicholas Bratsafolis, senior managing director,

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Foreclosures Still Accelerating, Industry Says

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structured refinance, at Lend America.

MSN: Anybody have an idea about when our current foreclosure glut will start to level off?


STERN

Scott Stern: I'm happy to start. First things first: the state of the origination industry is obviously good because of the refinancing and so our members are anywhere at 200% if not 300% higher volume in the first quarter of '09 than they were in '08. It's probably not sustainable because rates are being held low through some artificial influences but, nonetheless, it's a very good time for refinance volume and I think that means it's a good time for consumers to take advantage of low rates. If I were to look at a macro level, one quick … opening remark, I would say that low rates are kind of giving some consumers confidence again and, in my home market, we are starting to see houses come off the market a little faster. Headed into the spring and summer selling season there is reason for optimism, and as soon as you have that you have a bottom to prices. Then I think there is reason for optimism that you're going to start taking a lot of inventory off the market.


BRATSAFOLIS

Nicholas Bratsafolis: The one thing that we're actually focusing on at Lend America is that we're working with the Wall Street firms and hedge funds and other portfolio holders to avoid that eventuality of foreclosures. We're working with the available products that FHA has plus the Hope for Homeowners, which hopefully will be changed to where it's more user friendly and that's our goal. We are trying to avoid foreclosures. Is it at the bottom yet? I don't believe it is and I think you will see probably a little bit more negative press now that many of these states that imposed these moratoriums are coming off [them]. So I think you are going to see some [more foreclosures]. I also agree with the previous statements. I think we are starting to reach … close to that bottom.


MARGOLF

Mike Margolf: We work with a lot of different servicers right now and when it comes to … working through a loss mitigation situation with a consumer it really comes down to ability and willingness to pay and unfortunately there has been a lot of job loss of late. I think we have a little bit more hurt ahead of us in terms of the foreclosures from what we're seeing and what the servicers are providing feedback to us on. We're seeing some real challenges. It's helpful that Making Home Affordable and some of the new programs that are coming out, how aggressive these servicers are being with loss mitigation and homeowner retention strategies. Ultimately if these consumers don't have the ability to pay, they don't have an income to support their monthly payments, we're going to continue to see foreclosure volumes increase, in my mind.


PARKER

Les Parker: The foreclosure volumes are going to continue to rise. It has been held back near term because of the various different moratoriums that created just the pent-up demand. I think the current environment that we're in with the … mini economic expansion we're starting to go into for the summer is going to make it appear to have stabilized a little bit but then it's going to have another push down, particularly in the states that have been suffering a lot (like California, Florida and Michigan). And then what's added to it is, with the rise of the unemployment rate, that's the traditional item that … increases foreclosures. So now we have the traditional measure of pressure on foreclosures and that's going to cause it to rise and we will have another increase in foreclosure rates. I do not see the bottom in 2009.

MSN: 2010 maybe?

Les Parker: That would be nice. It will depend on the depth of the recession or deep recession or depression, and that's going to depend upon government intervention or lack thereof and it's going to be dependent on a number of items.

Nicholas Bratsafolis: Just to respond to one comment. I do think, and I share your view of some negativity, but if Hope for Homeowners really becomes a workable product … I think could have a tremendous impact on reducing that issue, if it happens.

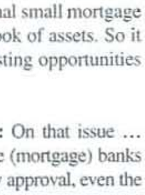
Les Parker: Responding. … I agree with you. The challenge is that that's just mainly just addressing agency situations. The big challenge still out there is the nonagency product.

Scott Stern: I would just add that, for better or worse, there's always a baseline of foreclosures caused in many instances by job loss, but also by divorce and by injury and death and illness and things like that. This time … foreclosures were exacerbated by products and the negative-amortization products that have layered on the added risk of teaser-rate ARMs where the borrowers were qualifying at the teaser rate. Those exacerbated foreclosures and it caused a flood of them to the degree that those loans are being worked out of the system and they're being refinanced or modified into fixed rate, fully amortizing loans. I think you eliminate product-based foreclosures. There still are some of those to reset, but if you eliminate product-based foreclosures you get down more to a normalized rate of foreclosure that can be absorbed by normal homebuying activity.

Les Parker: Just a historical note ... in the thrift industry in the '80s … there were ARM products that … didn't have the caps on them. We even called them at that time "neutron mortgages."

MSN: Scott, you mentioned loan modifications, what do you guys think the effect of the government's loan modification program will be? Will they do 3 to 4 million modifications as they're hoping? Are the incentives enough: $1,000 to the servicer, the incentive to the borrower? What do you think of the program?

Scott Stern: I'll take one for the team here. The quote I heard about the modification effort, and I've come to repeat this, is that it's a combination of "a big fat carrot and a sharp pointy stick" and that there are … people attempting to incent servicers to refinance with bonuses per loan. The sharp pointy stick is obviously the bankruptcy cramdown provision where bankruptcy judges can override the banks if they don't intervene to modify loans but I still sense a kind of a lack of a willingness almost a lack of enthusiasm to help solve the problem. And banks and their investors are profit motivated first.


FUCHS

Ed Fuchs: I know that some that have traditionally sold servicing are thinking about retaining servicing if they're not going to get paid in the market for it. They are thinking, "I can sell loans quicker, I can do more loans on my current lines, I can retain some servicing and maybe build some assets," which for a traditional small mortgage bank we haven't had a book of assets. So it does present some interesting opportunities out there.

Nicholas Bratsafolis: On that issue … even though many of these (mortgage) banks are trying to get the agency approval, even the ones that do, they're still going to have that constraint of what their warehouse bank is going to allow them to do and will they allow them to do these minibulks and will they allow them to do these sub 620? It seems like there's all this friction between the two issues.

Scott Stern: The net worths have been going up to $2.5 million, which a lot of traditional independent mortgage bankers don't have. They'll have to invest that in their companies … at a time when we really could use a good agency execution because you can turn your lines faster. Even with the lack of credit overlays, which correspondents have, it's getting harder to go to the GSEs because of net worth.

Nicholas Bratsafolis: On that issue as well, the warehouse banks, I've heard and as was raised in a discussion yesterday in a panel, where they are looking for four to six months of operating reserves … that is a tremendous disincentive to have any true volume, which is going to be a real problem. So I think the GSEs entering the warehouse space would be beneficial. I think it's a tremendous opportunity for warehouse, for the banks that have the ability to provide warehousing and as part of that transaction to have that flow of loan product. It's just staggering that no one's entering it right now.

MSN: I've seen several big warehouse lenders leave the market. Do you think that's going to continue? Do you think it's going to continue to be a liquidity problem and do you think that other people are getting into it and replacing that capacity?

Nicholas Bratsafolis: There can't be too many more that leave. Unfortunately there are only a few left as it is and I do believe within the next year you're going to see people entering the market and I know a few … I've talked to or even hear about to are looking to expand that. But they're very picky. They can call whatever game they want right now. The warehouse lenders control it.

Scott Stern: I have just a couple thoughts to add to that. The first is that there might be enough liquidity if rates were 7.5%. But … getting good news from two lenders, Wells Fargo and GMAC, and then you add to that there's potential good news at Colonial Bank and their viability, it's not enough to replace 90% loss of capacity when rates are at or near 5%, so … I do believe that we'll have new market entrants in the private sector but we're spending all of our free time encouraging Ginnie Mae and … FHFA to come up with a public sector solution for this even if it's in the intermediate term because there are more loans to refinance than there is capacity to close them.

MSN: The problem of fraud is getting bigger and bigger and we were just at our mortgage servicing conference and people were noting that as the cycle turns from originations down into servicing dominance the fraud has migrated … over to the servicing side. One example is a forged notice of reconveyance in which now you have access to 100% of the equity in the home that you can steal.