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25 Lenders & Servicers

Why Auction? And Why Now?
Going Beyond REO by Integrating Strategies That Pay Real Dividends

REO 101
How Agents & Attorneys Can Build Lasting Relationships

Where Big Ideas Grow
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What's News
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- California Sees Rise in Delinquencies
- NACo Backs FHA Reform
- Five Star Touts Five-Star Speakers
What is your name really worth? Is it worth more or less than mine? Is it worth more than a cow? A work of art? A classic car? Until recently, such a series of questions would have been a rather cerebral exercise that would be more likely found in a self-help book than in DS News. But, as it has done in a number of areas, Google has changed that. Today you can know exactly what your name is worth. Rather than debate the merits of every possible word grouping, Google has installed auction technology that uses competitive bidding to allow the marketplace of buyers to determine the cost of ad space for any search term they might desire. Rather than trying to control or game the market via their opinion or that of some “expert,” Google’s philosophy is that market value is what knowledgeable buyers are willing to pay.

On the Road to Enlightenment
Auction methodology has been used to sell our stocks and bonds, our art, our commodities, our cars ... even (thanks to eBay) our dashboard hula dancers. Yet most American consumers still do not consider auction for their real estate transactions. Thoughts of increased net returns, not to mention transparency and liquidity, often take a back seat to fear of the unknown, especially since “this is the way it’s always done.”

Business sellers, however, are focusing a more fearless eye toward the bottom line. How do I reduce the massive costs and time it takes to get owned real estate liquid? How do I measure and compare returns on investment between competing sales strategies? And how do I strategically and proactively increase the health of not only my overall business but also the industry I care about?

I grew up attending real estate auctions. My father was and remains a real estate auctioneer. I saw firsthand how he and his partners created amazing results, consistently obtaining market value in what seemed like almost a wink of an eye.

Beyond REO: Businesses Mind Their Bottom Line Through Competitive Bidding

Why Auction? And Why Now?
obtaining market value in what seemed like almost an wink of an eye. By the time I finished law school, however, I became aware of a more common perception of real estate auctions, one that backfired back to the Great Depression and an requiring government to define the best practices for publicly selling real estate due to loan default. The judicial foreclosures are more or less auction eventually became what many consumers in the U.S. associated with an auction of property. While the times have changed, some homes we create capture and control our imagination far beyond the original facts.

The Price of Freedom

As an adult, I’ve traveled around the world and seen how people react and benefit when they can freely act openly and competitively toward establishing the true value of a property. This responsibility and freedom, to set the price I am willing to pay, increases not only that buyer’s confidence but also the integrity of the overall market in which everything is valued. It brings the real estate market closer to inflation than the original facts. In South Africa, one of my favorite emerging markets, business associates are creating their real estate market and how they can freely act openly and competitively toward establishing the true value of a property. This responsibility and freedom, to set the price I am willing to pay, increases not only that buyer’s confidence but also the integrity of the overall market in which everything is valued. It brings the real estate market closer to inflation than the original facts.

Most of our residential real estate market remains beholden to preset pricing, non-public access to information and terribly inconvenient offer/counter-offer practices. South African economy.

Few people would be willing to debate the values of freedom, responsibility and property ownership. Even the values of competition, transparency and efficiency are now largely accepted. Yet in the U.S., most of our residential real estate market remains beholden to preset pricing, non-public access to information and terribly inconvenient offer/counter-offer practices. Yes, there are many sellers, and a few buyers, who want or need this sense of security for what admittedly are “large ticket” transactions. But in an age of free-flowing information and ever-increasing efficiencies, there are costs to these methods that seldom the only real wealth may afford.

The Hard Facts

Why are we in the default servicing and REO business? To make money? Sure, we’ll all like to know that what we do to pay for food on our table affords us a few toys and conveniences to boot. When I sit down with professionals in this business and probe deeper, however, it keeps coming back to other people. People we’d like to help get into their dream home, afford to stay in their current home, or, at minimum, sell.

Fannie Mae: Won’t Be Prosecuted by Justice Department

Fannie Mae has been advised by the United States Attorney’s Office for the District of Columbia, which has been investigating Fannie Mae’s accounting policies and practices, that the investigation has been discontinued and no charges will be filed. Fannie Mae was initially notified in October 2004 of the U.S. Attorney’s investigation of the company.

The company announced in May that it had agreed to comprehensive settlements reaching more than $1 billion with the Office of Federal Housing Enterprise Oversight (OFHEO) and the U.S. Securities and Exchange Commission (SEC).

In the latest 10-Q filing, the company said it would complete its ongoing restatement by the end of 2006.

“We will continue to work closely and cooperatively with our regulators as we move forward to carry out the terms of our agreements, complete our restatement and build a better company,” said Daniel H. Mudd, president and chief executive officer.
Preforeclosure Sales to the Rescue, via ‘ASAP’

A recent newscast presented the story of Ruth Markley, a retiree who had an Option ARM mortgage and had difficulty making her payments as her rate increased. After keeping her house listed for more than a year-and-a-half, Markley turned to auction. “It was such a relief, and when I auctioned it I sold it for $10,000 more than the Realtors had listed it for. It was like a piece of cake to me.” As it has in countless other fields, competitive bidding offers new solutions to old problems.

The majority of foreclosures are not the result of fraud. Nor can they be attributed to “bad people.” Contemporary films are not filled with criminal masterminds focused on defrauding the mortgage banking industry. Most foreclosures occur because of an adverse life event, such as job loss, prolonged illness or natural disaster that reduced an otherwise responsible borrower’s ability to make monthly payments on their loan. Given the chance to make their payments, they would. Knowing this, lenders go to great lengths to provide work-out solutions for these cases. But if that solution cannot be found, then foreclosure necessarily occurs. Once that happens, the borrower—stripped of his or her equity, credit and dignity—is unlikely to maintain a customer relationship with the lending institution in question. Yet as time goes by, the borrower is likely to regain financial stability. And the lender—in addition to holding costs (insurance, taxes, maintenance, etc.), marketing costs and legal costs—has been forced to forfeit a future revenue stream. This is “lose-lose” defined.

Those in the work-out profession have long been familiar with preforeclosure “short” sales. In these, a borrower in default is persuaded to sell his or her home for current market value preforeclosure, even at a loss to the lender, rather than lose it to foreclosure. Emerging in the real estate auction industry is a transparent and time-definite 35-day sale process, which maximizes liquidity, reveals the true market value and provides a win-win solution for borrowers and lenders alike: the preforeclosure sale. In a preforeclosure sale, the lender or a credit counselor reaches out to a distressed borrower and presents the sale of the property as an option. If the borrower agrees to be introduced, the auction company negotiates a relocation assistance amount, if needed, and the borrower, in turn, leaves the property in market-ready condition. Within 35 days, the property is sold and the borrower—rather than facing foreclosure, eviction and ruined credit—receives the net proceeds, which result from the high bid minus the loan balance and sale expenses. If the proceeds are less than owed the lender, the lender may, at its option, accept the same as in a short sale and discontinue foreclosure upon timely closing. There are no upfront costs or obligations on behalf of either the borrower or lender, who otherwise is still in a mandated foreclosure timeline.

Williams & Williams was the first company to offer this process nationwide, which it has named “ASAP,” or the Assisted Sale Auction Program. It has already completed dozens of ASAP sales, which remarkably, have been 100 percent successful to date in avoiding foreclosure. A recent example includes a mortgage lender that introduced its borrower to Williams & Williams regarding a home being foreclosed on in Oklahoma City. Both the borrower and lender presumed the sales proceeds would be short, but the borrower wished to do what he could to avoid final foreclosure. The subsequent ASAP sale took place in 35 days, with closing completed only six days later. To everyone’s pleasant surprise, however, the proceeds in fact resulted not only in avoiding foreclosure but also in full loan payoff, with an additional $22,000 in equity realized for the borrower.

What is an REO really worth?

In Wharton, Texas, a two-bedroom, two-bath single-family home on approximately two acres was foreclosed on and went into REO. It was listed and then sat. And sat. And sat. After almost 600 days on the market, the lender finally decided to sell it at auction. Within 35 days, the property sold for $63,000—119 percent of the presale estimate. This illustrates the rapidity with which auction can provide a seller with true market value. You don’t have to put a property on the market for 600 days (and see your net return diminish as holding costs pile up) to get true market value.

When asked why her company chose to use auction for its high-dollar REO disposition, First Magnus Financial Corp. REO specialist Anna Stark remarked, “What caught our attention was that we could dispose of property in a 40- to 60-day period.” Noting the impact holding costs have on their net return, First Magnus has chosen to send all of its higher-valued REO directly to auction. By doing so, it not only minimizes holding costs but also avoids any artificial economic ceiling created by listing it at an “asking” price. To illustrate, First Magnus recently auctioned a home in Coral Gables, Fla., through Williams & Williams. Without previously listing the property, it was taken directly to auction and was expected to sell for approximately $650,000. The high bid came in at $900,000. “We were jumping that day,” Stark told Inside Mortgage Profitability. “I couldn’t tell enough people quick enough about our good fortune. REO auctions have been very lucrative for us.”