What sort of house would the world’s richest person build? Certainly it’s something many have considered at one time or another: “If I won the lottery tomorrow, here’s what I’d do.” And that answer very likely would involve castles, vast estates, or perhaps Bill Gates’ 50,000-square-foot home in Washington state. But at the turn of the 20th century, the world’s richest person considered the construction of a home both elegant and comparatively simple. John D. Rockefeller delegated the day-to-day planning responsibilities for a home to be built in Pocantico Hills, New York, to his son but left a general directive that the home support a simple lifestyle. His son, John D. Rockefeller, Jr., determined to build a home that would stand as a monument to the greatest achievements of mankind in architecture and landscape design.

Reliving the Rockefellers

As a result, leading architects and interior decorators were summoned from around the globe. Railroads were re-routed. Materials were extracted from quarries. Antiques and fine art were selected from the best shops in North America and Europe. When the home was completed, it was a masterpiece. Kykuit, as it was named, was a beauty to behold and—as one would expect—a killer to maintain. Three generations of Rockefeller family leaders lived on that vast acreage, but as the family wealth was disbursed over a wider range of people and the property aged, its upkeep became more and more of a burden.

Redevelopment

Rounds of plans came and went about what to do. Each of these was based around the preservation of Kykuit itself. When Nelson Rockefeller, former vice president of the United States and Kykuit’s final resident, died he left his ownership stake to the National Trust for Historic Preservation. This only complicated matters further. Who would own it, and how on earth could they afford to maintain such a vast and ornate piece of real estate?

Down She Goes?

With all of these plans and debates swirling, Laurance Rockefeller (grandson of John D. senior, and a noted venture capitalist and conservationist in his own right) came forward with his own suggestion: Tear the house down. By Laurance’s rationale, the family need not build or maintain monuments to itself such as Kykuit. This proposal flew completely in the face of conventional wisdom. While much had been debated,
all parties presumed the house would be preserved.

**Daring to be Different**

For all our benefit, Kykuit was not torn down and is now a marquee tourist attraction for the National Trust for Historic Preservation. Following Laurance Rockefeller’s challenge to basic assumptions, all parties worked out a unique ownership agreement that allowed Kykuit to remain standing. What this shows is the importance of challenging conventional wisdom—that which most simply presume to be true.

Such an approach could benefit the default servicing industry in a number of areas, but few notions seem more sacred than “we’ve got to keep the borrower in the home.” This piece of conventional wisdom is the foundation of servicing strategies throughout the industry and is a key focus of this issue of *DS News*. Just as Laurance Rockefeller’s willingness to put all assumptions on the table led to fresh thinking and new solutions to the complex problems at Kykuit, so too should we be willing to challenge the assumptions within our industry. And one of them is this: How important is it to keep people in their homes no matter the circumstances?

**A Further Look**

At first glance, there would appear to be a dividing line as it relates to compassion in this instance. After all, most people would agree that keeping borrowers (and their families) in a home to the point of severe capital losses is the nice thing to do. Conversely, encouraging people to move to another home is seen as imposing a traumatic experience in the midst of what is already almost certainly a time of personal difficulty. Yet to make such a distinction is to look at the situation in a vacuum—precisely the cause of much presumed thinking. It may help to look at why most people begin to miss payments in the first place. Rather than fraud or greed, it usually comes down to a life event that inhibits the ability of borrowers to make their monthly mortgage payments: death of the family breadwinner, a prolonged illness, a job loss, etc. When such a tragedy arises, no one would argue that encouraging the family to move is an easy or popular thing to do. Yet it is only fair to look at those circumstances and determine what is really important for that family. Is it more important to have enough money to pay for health care, to pay for basic needs until the next job comes around, than to pay as much as you can on your mortgage? Is homeownership more important than health, education, or even adequate nutrition?

It is not. Yet the knee-jerk reaction for most is to just keep the family in the home. Beyond sheer altruism, a pessimist might argue that the main reason for keeping borrowers in the home is to keep an existing revenue source on the line in the midst of a declining, illiquid marketplace. Who wants to encourage customers to move somewhere they will pay less or, dare we say, rent? Keeping them in the home equals keeping control.

So what would a world look like in which borrowers whom are in over their head move to more affordable living conditions? For most, the initial pain would be evident. Yet the long-term benefit would be substantial. No wrecked credit. No foreclosure. No severe limitation on capital available for other important life priorities. For the lender, the initial pain would be most evident in a reduced mortgage payment.

**ROCKEFELLER’S “LOOKOUT”**

Kykuit, meaning “lookout” in Dutch, is the preeminent hilltop home of philanthropist John D. Rockefeller and three generations that followed—now turned historic landmark. (Photo: Mick Hales)
Yet the avoidance of foreclosure (and the substantial costs that come with it) means a greater likelihood for a continued client relationship. Clients who are sued (via foreclosure) are unlikely to bring their business back to their lender. But clients given reasonable options in a difficult time will appreciate the consideration in the long run.

The Logic of Liquidity

All of this, of course, hinges on the borrower being able to sell his or her home without a loss in a reasonable amount of time. This requires a liquid real estate market, a two-tiered version of which has been outlined in this column previously. Without a time-definite, transparent, and efficient sale of the first home, a second, more affordable home is out of the question—yet another reason we need greater liquidity in the U.S. real estate market.

With a liquid marketplace, individuals can buy and sell on their own timetable rather than relying solely on bartering sales systems. The foremost example is stocks, a market and asset class that is highly liquid and as a result has benefited millions of Americans. This was not always the case. For hundreds of years, stocks were the sole domain of the wealthy. When outsiders tried to break onto the scene in a significant way, they were often taken to the cleaners by organized stock pools that would trade a stock back and forth, driving up its value until they could unload it on some sucker for an inflated price. Federal oversight made the stock market safer for average investors, and the increased availability of information democratized the market. It is now virtually fully liquid and readily available for use by anyone with an Internet connection.

This is not to say that real estate should be expected to trade solely on an auction-based platform as are stocks. Just as stocks have multiple vehicles for trading (futures and options, etc.), so too does real estate need multiple sales venues tailored to seller needs. In an industry as resistant to change as the default servicing industry, we need not even talk about tearing down the house.

The walls are caving in across America, with foreclosure rates skyrocketing and vacancy rates reflecting a plague of blight creeping its way throughout cities from coast to coast. Much has been debated about who is to blame. It’s the investors’ fault. It’s the speculator’s fault. It’s the lender’s fault. It’s the borrower’s fault. It’s the appraiser’s fault, the real estate broker’s fault, the homebuilder’s fault, and on and on and on. But what are we doing to respond? If your house was on fire, would you argue about who started it or would you find the quickest route to a phone so firefighters could minimize the damage?

Meeting the Challenge

Most everyone would agree that borrowers and lenders alike are feeling pain. And when we think of that pain, we know why we need to tear down the proverbial house, why we need to expand the horizons of our thinking. Whether it’s a Rockefeller mansion that is too costly to maintain or a laid-off factory worker’s home that demands too large a monthly mortgage payment, the need for creativity to solve the challenges of homeownership finds its way to all of us. The default servicing industry is no exception. Unlike Kykuit, the industry is not a masterpiece whose preservation in its current form is important for humanity. Quite the opposite. This is an industry, and industries evolve to serve humanity. And all it takes to make that happen is a simple challenge to a basic assumption.