



White Paper

Standardizing the Disposition of REO assets

By Jay T Kister



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A clear standardization of the REO process will eliminate millions of dollars in waste, support local communities, and restore public confidence in the US banking system. There are four key areas that require standardization:

- 1. Valuations (BPO)**
- 2. REO Management and Disposition**
- 3. Bank Directed Loss Mitigation Service**
- 4. Title and Escrow Management**

According to Foreclosure Trackers Inc, the U.S. will have three million foreclosures in 2008. This could cost U.S. banks \$720 billion in holding costs alone!

According to numbers released by JP Morgan Chase it costs “\$2,000 per day to hold an REO”.

With federally mandated liquidity requirements being met, the inability to lend that cash can cost a bank on average \$60,000 per month to hold an REO.

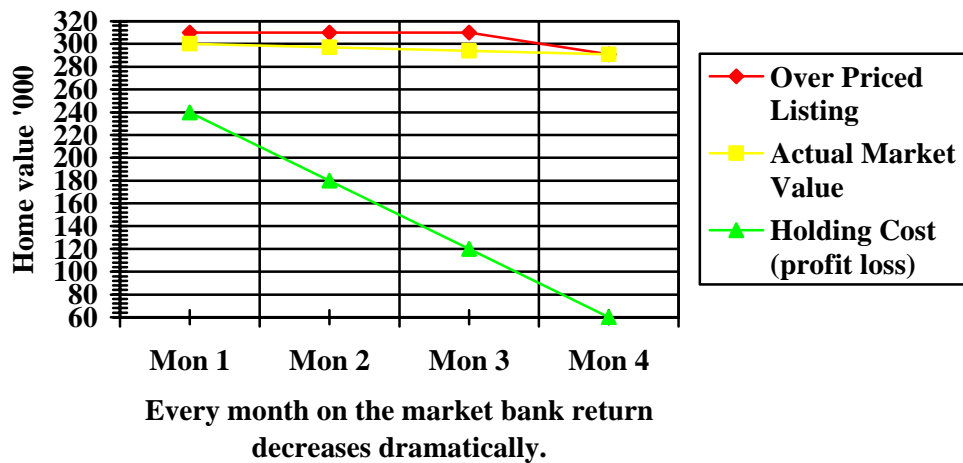


Four Critical Areas That Require Standardization:

Valuations (BPO)

Broker Price Opinion (BPO). A bank orders a BPO on a defaulted asset to ascertain value in order to make a sound decision on how to proceed. The bank hires an asset management company who in turn hires a local realtor to value the property.

- Currently there are no standards by which to define a BPO's accuracy. Many errors result. A property valued \$10,000 too high results in 2-3 months of lost marketing time. By the time the asset can be correctly re-priced all of this has cost an average of \$60,000 per month. The increased time on the market also leads to a swollen inventory on the market, causing further market depreciation. The same property priced \$10,000 too low results in a \$10,000 immediate loss to the bank and accelerated price depreciation in that area which can potentially decrease other bank assets and increase the rate of foreclosure in the area.



- Most Asset Management Companies have centralized Q.C. and processing staffs. Simple illustration: A Q.C. manager in Jacksonville, Florida (or India) is not going to know that comparables from across one street in South East Los Angeles in a completely different market. Decentralizing Q.C. and utilizing local expertise will produce more accurate values and support local communities.
- Using a standard by which Banks, Asset Management Companies, and Realtors value properties creates legitimacy and brings control to the market. Consumers gain confidence when assets are being priced appropriately and out-of-control depreciation is curbed.

As of today there are 182 major lenders, which maintain a specialized REO department in the United States.

By Lane Guide



REO Management and Disposition

State and county municipalities are increasingly passing more legislation, which is forcing REO holders to spend money on repairs and upgrades or be heavily fined. **Effective July 8, 2008, California state government passed SB 1137 to fine REO holders up to \$1,000 per day if properties are not maintained satisfactorily.** This further increases holding costs for REO assets.

Extensive interviews demonstrate that the top Real Estate Brokers, Asset Management Companies, Banks and Title Companies desire to have national standards so that all the various industries involved can work in congruence.

- Banks lose the most money on the mismanagement of the following:
 - Cash-for-key negotiations
 - Evictions
 - Property preservation
 - Marketing
 - Closing management
- By maintaining standards for REO management, properties will be better kept. There will be less inventory on the market and this will help stabilize housing prices.
- If banks show a commitment to national standards, realtors will become their advocates to promote building local communities.

Bank Directed Loss Mitigation Service

Consumer directed loss mitigation is one of the largest disasters in the banking industry. It takes an average of six months for a bank to respond to a short sale offer. This inefficient system is caused by the lack of any standard process from the banks and is compounded by consumer fraud.

Foreclosure Trackers Inc, a defaulted note-buyer, reports an 80% success rate in avoiding foreclosure through their aggressive loss mitigation efforts.

- Bank directed loss mitigation can remove 70% of the REOs out of the default process, potentially saving banks over \$504 billion in REO holding costs.
- Standardized processes for bank directed loan modifications, especially employing the personal touch through using the existing Realtor base, can keep people in their homes. This can reduce REO inventory by 30%, which will dramatically and immediately help create price stabilization in local markets.



- Since banks have a general reputation of being difficult to work with, the first ones to put these standards into place will receive the greatest PR benefits. Bank directed short sales keep properties occupied and in good condition at the owners' expense during the selling process. **This eliminates government fees and repair costs.** With standards in place, the approval process is streamlined. Pre-approved pricing eliminates months from the short sale. This translates into happier homeowners and buyers.

Today while buying a new house at a lower price, consumers are stating on the loan application that they will rent their existing house. Instead of renting it they let it to go into foreclosure. Fannie Mae and Freddie Mac just changed lending guidelines in an effort to curb this behavior. Now consumers must show 30% equity to retain their existing house as a rental.

Title and Escrow Management

Title companies, in an effort to cut cost and increase profitability, have taken the TSG and REO title and escrow business away from their local offices and created centralized processing divisions.

- It is an industry misconception that banks receive a discounted rate for using a Title company's centralized processing center. Title fees are published in advance, and they are the same whether from a centralized processing center or a local office. They offer the same discount for REO clients. The difference is that local offices can provide better service to the banks, the homebuyer, and the real estate agent.
- As banks support the local offices they also bolster the economic base in those communities.
- Banks are able touch the homebuyer in a more personal way by having the homebuyer meet with a local closing agent. Miscommunications are quickly cleared up. Information is transferred quickly and questions answered. This eliminates the common sentiment of buyers today, *that banks are cold, heartless corporate monsters.*

"I lost two escrows because the escrow officer on an REO listing I had was unable to respond. It took weeks to get information, causing the buyers to get fed-up and move on.

Jay Lawson, Realtor