



Free Daily Headlines RSS Feeds Syndication

Opinion

Change Text Size: - +

Foreclosure roulette

Commentary: A game of extend and pretend
BY SEAN O'TOOLE, TUESDAY, AUGUST 31, 2010.

Inman News

Comments

- Email
- Reprint Rights
- Community Guidelines

Like 11 pec

- Tweet This Page
- Facebook
- LinkedIn
- Digg This
- Buzz up!
- ShareThis

Editor's note: The following is a guest perspective.

I spoke last week at a real estate investment club and shared with the audience my belief that foreclosures will trickle out over a very long time rather than come as a [wave of foreclosures](#) as others continue to inaccurately predict.



Flickr image courtesy of [stoneflower](#).

I do, however, understand the nature of those predictions.

Given the number of households that aren't paying their mortgage (delinquencies), we should be seeing a massive wave of foreclosure notices and ultimately foreclosure sales. It's a logical conclusion.

But this has become a political problem in a world of financial fantasy, so I don't believe that simple logic applies.

The reality is that through financial engineering (interest-only, subprime, swaps, option adjustable-rate mortgages, negative equity, stated-income loans, etc.) we created trillions in excess mortgage debt that has left millions of homeowners underwater, financial institutions on the brink of collapse, and the Federal Deposit Insurance Corp. nearly insolvent.

Back in September 2008 it became clear that financial collapse was imminent, and the federal government did what it does best: bailed out those who caused the crisis while leaving taxpayers holding the bag for the losses.

Pulling this hat trick off required one simple ruse -- getting everyone to believe that those losses ultimately wouldn't be very big.

To do this, the government changed the rules. The FDIC, which previously forced banks to get bad assets off their books, became a leading proponent of saving homeowners with loan modifications that likely just delay the inevitable.

With a little government pressure, the supposedly independent Federal



Headlines »

Most Recent Most Comments Most Emailed

- > Foreclosure roulette
- > Bank profits up, but 'problem list' grows
- > U.S. home-price index climbs 3.6% in Q2
- > 2010 real estate tech predictions revisited
- > 4 highlights of Gist's Google Gadget
- > Appraisers publish homebuying guide
- > 8 ways to put 'squeeze' on Web leads
- > Changes at the top for NAR credit union
- > Homebuyer tax credit back in play?
- > Vyoo.it makes listings info mobile

Opinion »

Most Recent Most Comments Most Emailed

- > Foreclosure roulette
- > Getting lucky in global real estate
- > Fiduciary duty vs. dual agency
- > A VOW for real estate change

Accounting Standards Board allowed banks to account for loans at theoretical values that were based on computer models rather than current market value.

An acronym soup of programs followed, which were promoted as providing help for America's homeowners: HAMP, HAFA, HARP, 2MP and more. But the reality is that, to date, these programs have resulted in little more than delays.

The government and lenders say that these failures are due to complexities of implementation, difficulty reaching homeowners, and a sundry other things. But what if these programs were never intended to succeed?

What if they were simply intended to create delays, provide false hope, and maybe get the banks a bit more cash out of homeowners in the form of trial loan-modification payments?

Sounds like a crazy conspiracy theory, I know, but hear me out.

The problem faced by both lenders and the government is that they can neither afford to kick homeowners out nor bail them out.

For lenders, either scenario forces losses to be recognized, while -- thanks to mark-to-model accounting rules, and little or no pressure to foreclose from the FDIC -- they can instead leave nonpaying homeowners in place and push those losses into the future. ...CONTINUED

1 2 next › last ›

Copyright 2010 [Inman News](#)

All rights reserved. This content may not be used or reproduced in any manner whatsoever, in part or in whole, without written permission of Inman News. Use of this content without permission is a violation of federal copyright law.

You must [login](#) or [register](#) to post a comment.

Submitted by [Kevin Hardin](#) on August 31, 2010 - 1:47pm.

Sean, great article but, I think you are missing a very key piece and that is the recent Confidential Memo's sent to all of the servicers under HAMP by Fannie as administrator of HAMP effectively denying any further continuances of foreclosure dates. That memo is clear, those 2 Million homes at 300 days delinquent are to go to foreclosure immediately.

Kevin W. Hardin CMB, CMC, CMPS
Director, Mortgage Mediation Group
Thomson Law, PLC
Counselors At Law

[Login](#) or [register](#) to post comments

Submitted by [Lonnie Stock](#) on August 31, 2010 - 1:50pm.

And There Lies The Problem To 30% of This Countries Woes!!!!

[Login](#) or [register](#) to post comments

Submitted by [Dennis Hearing, The Hearing Group](#) on August 31, 2010 - 2:22pm.

Sean,
we have been hearing that for some time from the big guys, this "slow bleed" method of disposition is the preferred method, makes for a strong balance sheet,

Archive

[August 2010](#)
[July 2010](#)
[July 2010](#)
[June 2010](#)
[May 2010](#)
[April 2010](#)
[March 2010](#)
[February 2010](#)
[January 2010](#)
[December 2009](#)
[November 2009](#)
[October 2009](#)

Categories

[Agent advice](#)
[Buying & Selling](#)
[Home Improvement](#)
[Investing](#)
[Investing & Pers](#)
[Markets & Econ](#)
[Mortgages](#)
[Real Estate & P](#)
[Real estate brok](#)
[Real estate tech](#)
[Rentals](#)
[International](#)

New Comments

[Antoine Pirson](#) on [Foreclosure roulette](#)

[Dennis Hearing, The Hearing Group](#) on [Foreclosure roulette](#)

[Paul Scheufler](#) on [Foreclosure roulette](#)

[Kevin Hardin](#) on [Foreclosure roulette](#)

[berge charles](#) on [Foreclosure roulette](#)

[Lonnie Stock](#) on [Foreclosure roulette](#)

[Thomas Cruse](#) on [2010 real estate tech predictions revisited](#)

[damon jim](#) on [2010 real estate tech predictions revisited](#)

[theodore mseka](#) on [8 ways to put 'squeeze' on Web leads](#)

[Abe Ulug](#) on [Shadow inventory's](#)

Generate new leads with Match & Append.

Free Trial



Ads by Google

[Short Sale vs Foreclosure](#)

Download the Arizona Short Sale Guide to Answer All Your Questions.
[www.GreenStreetRealty.](#)

[The Brown Bailout...](#)

Why Is Congress Playing Favorites? And How Does This Impact You?
[BrownBailout.com](#)

[Avoid Home Foreclosure](#)

Automated Stop Foreclosure Program Enter Details-See Right Way-Free!
[www.AvoidingMortgageF](#)

[Short Sale Specialist](#)

Best Short Sale Agent Arizona

especially on those multi million dollar mortgages, cheaper to just let them not pay and hopefully maintain the property...than to take them back.

Hey Kevin,
you have a copy or a link to that Memo?

Sincerely,
Dennis Hearing, PA, CDPE, CSSA
The Hearing Group Keller Williams Realty
Certified Distressed Property Experts
954-648-4949

[Login](#) or [register](#) to post comments

Submitted by [Paul Scheufler](#) on August 31, 2010 - 2:58pm.

Thanks Sean for some interesting thoughts.

Kevin, I would love to see a copy of that Fannie letter as well. Thanks for mentioning that.

Paul Scheufler
Expert Realty Services, Inc
paul@expertrealtyservices.com
630-257-1432

[Login](#) or [register](#) to post comments

Submitted by [berge charles](#) on August 31, 2010 - 3:13pm.

This is a most intelligent succinctly written article about today's real estate debacle. Trading tomorrow for today is the classic way to manipulate and exploit human nature. Short term gratification and denial of reality inevitably leads to chaos, much difficulty and eventual restructuring.

Mr. O'Toole was most fortunate to have a father who taught him how to think, to question and understand why things are the way they are. We need more people like him.

An excellent article.

realestatebeta.com

[Login](#) or [register](#) to post comments

Submitted by [Antoine Pirson](#) on August 31, 2010 - 3:23pm.

Antoine E Pirson, Broker, MBA

I like the way you approached the problem. I also think the reasons why banks are not willing to foreclose in a hurry is that as long as they keep these "toxic" assets on the books, they can go the the discount window and borrow at 0.45% and invest that money in their own projects at 6 , 7 or 8 %.

But here is another suggestion: If banks were to loosen the underwriting standards a little bit, much more real estate would be bought, and values would stop declining or may be even go up a little, which in turn would reduce the under water holders, and perhaps even stop people from walking away as their home value increases. I am not talking about the good old times, when you could buy with no money down and no income.

But 20% is too high!!! And I am certain the banks do not want to lend to us. But I know at least 4 of my clients would buy real estate if the downpayment was around 12%. And the next one in line is the appraiser, who kills deals every day!! by appraising low, maybe on request of the banks.

Kind regards

[Login](#) or [register](#) to post comments

invisible spectrum

Only, Get CASH
back
www.AZShortSaleAdvisor.com

Ads by Google

[Foreclosure or Short Sale](#)

Download Arizona Short Sale Guide Free and Get Answers Today!
www.GreenStreetRealty.com

[Marketing for Realtors](#)

Generate Real Estate Referrals with Your Own Magazine. Free Sample!
www.ByDesignPublishing.com

[Avoid Home Foreclosure](#)

Automated Stop Foreclosure Program Enter Details-See Right Way-Free!
www.AvoidingMortgageForeclosure.com

[ARIZONA Short Sale Expert](#)

Stop foreclosure & sell your home. We have helped hundreds, No fee
www.AZshortsaleadvisor.com



[Foreclosure or Short Sale](#) Download Arizona Short Sale Guide Free and Get Answers Today! www.GreenStreetRealty.com
[Marketing for Realtors](#) Generate Real Estate Referrals with Your Own Magazine. Free Sample! www.ByDesignPublishing.com
[Avoid Home Foreclosure](#) Automated Stop Foreclosure Program Enter Details-See Right Way-Free! www.AvoidingMortgageForeclo
[Short Sale Consultations](#) Faith, Ledyard, Nickel & Shelsky \$50 for a half hour consultations www.faihlaw.com



Ads by Google