

# Treated Correctly, Foreclosures can be Used for Good

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Homeowners might be in foreclosure with a high loan-to-value and bad credit. But you can be their hero — and make money, too.

Think about it: There were more than 600,000 foreclosures last year, and 800,000 are likely this year. Approximately 4.5 percent of all home loans are delinquent. Often, we must calm down the borrowers who are in tears or mad as hell. Our job is to explain their options and if possible, put forth a plan to keep the homeowners in their homes. Most of our business are referrals from loan brokers, Realtors, attorneys and CPAs. Treat these potential foreclosures as potential business opportunities.

Example: Mrs. Jones calls you with a problem. She is in foreclosure and in tears. Her husband is working but was unemployed for six months prior.

The bank will not accept payment and will sell her home in a few weeks. Her home is appraised at \$150,000, and the loan balance is \$122,500. Her credit is poor, and if nothing changes, her four babies soon will be on the street.

You can't do a thing? Bad answer. You should be trying to help all the Mrs. Joneses out there.

Ninety-nine percent of all "A" lenders and 50 percent of "B/C" lenders will order a loan modification where most of the delinquent amount is placed on the back loan with little payment increase — or even a decrease. Even really hard-nosed subprime lenders can draft a forbearance workout plan that requires some cash down and the delinquent amount paid in six to 24 months by increasing payments.

The problem is finding someone to package Mrs. Jones' information in a way that the lender will find attractive.

Thousands of lenders are out there, and no two underwrite a loan modification or forbearance the same way. A rule of thumb is that borrowers have a good shot at a workout if they solved their financial problems, show provable income and expense consistency and saved some money (Note: If they

solved their problems and are not making loan payments, they should be saving money). Often, income only has to be \$200 to \$500 more than expenses per month.

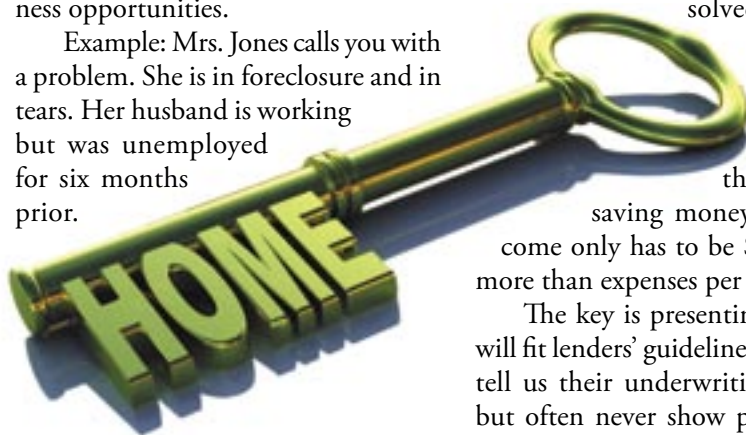
The key is presenting a plan that will fit lenders' guidelines. Lenders can tell us their underwriting guidelines but often never show printed guide-

lines for workout plans. In fact, many lenders never tell their borrowers that they offer a way to save their homes or how to get approved for such a plan.

Most times, the Joneses first receive correspondence from many sources. They'll get numerous threatening phone calls at home and work from the lender's collections department. They also will receive 50 or so letters from attorneys urging them to file for Chapter 13 bankruptcy. That is a bad choice, as they often fail and will wreck their credit for the next 10 years; in short, Chapter 13 is the last train out of town. In addition, the Joneses will meet many odd folks knocking on their door saying they are the Joneses' last resort or that they'll give the Joneses \$5,000 now if they deed the house to them.

The Joneses also will hear from some guys who were bricklayers last week and now tell them "not to worry" — they can get the Joneses a lender and a fresh-start loan modification. Hundreds of foreclosure-solutions companies will do the job for a fee, ranging from \$1,000 to \$2,000, and a few will pay you a commission (\$300 to \$600) for finding and writing up the borrower's information. Why use them? The reason is simple: Good foreclosure-solution companies know hundreds of lenders' workout guidelines, which you never will learn in time to save Mrs. Jones.

So you write her up, send her off to a "loan-mitigation company" and make commission. If the company knows how to put together a finance plan that the lender can approve — which occurs about 90 percent of the time — you can expect the Joneses to



receive a loan modification, and the home will no longer be in foreclosure. Reputable companies will not accept clients they cannot help.

When Mrs. Jones is out of foreclosure, she could qualify for a new “B/C” home loan and in time a new “A” loan. Whom will she call?

Many loan organizations also are marketing to homeowners in foreclosures as a great way to generate income opportunity. Here are some possible angles:

- **Refinancing**, if the home has necessary equity.
- **Turning over clients to real-estate-debt-reconstructing companies** and receiving a commission.
- **Setting up a future loan.**
- **Buying the property**, if the homeowner wants out, or receiving

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payment after referring the homeowner to a professional investor or Realtor.

How do you find foreclosures in your area? It’s simple: Foreclosures are legal actions that are listed in most local newspapers’ legal notices. *The Wall Street Journal* also published a great article this past Feb. 4 titled “How to Track Down Foreclosure Properties.”

The article details how to find these properties when the first notice from the first lender is filed — and before the lender can sell the home at public auction. The time between notice and sale will vary from state to state and can be between two and six months.

Phone calls and letters to all the Joneses from a local, well-known and trusted loan brokerage firm will be welcomed like a fresh, cool breeze on a very hot day. Be their hero.

*Jim Richman is president of Richman and Associates Inc., which specializes in negotiating loan-modification plans with a borrower’s lenders on residential and commercial properties. Members of the firm are former bankers, bank examiners, U.S. Department of Housing and Urban Development commissioners and Realtors. Reach them by phone at (877) 502-7283 or e-mail jimrichman@msn.com. ♦*