Loss Mitigation: An Effective Alternative

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THE RAPID RISE IN MORTGAGE DELINQUENCIES AND FORECLOSURES has created significant negative ripple effects, and not just at the neighborhood level.

The number of communities affected by foreclosures has grown dramatically in a very short time. In September 2007, data at the ZIP code level on the percent of loans in foreclosure, as well as properties held by lenders or servicers as real estate owned (REO), showed high foreclosure rates in some areas, particularly in the South and West. Data from April of this year, however, showed that the crisis has intensified significantly and spread to a much wider area in all parts of the country.

The impacts of these foreclosures are devastating on a number of levels. For borrowers, foreclosures can exact significant costs and hardships, involving not only the loss of home equity and impaired credit, but also limiting access to stable, decent housing and disrupting labor market participation. In addition, as foreclosures have become increasingly concentrated in certain neighborhoods, they threaten to have significant negative spillover effects on the wider community. Research indicates that foreclosures tend to reduce the value of nearby properties significantly, especially when vacancies drag out and the local housing market is weak. We are also seeing the impact from foreclosures and the decline in house values on local government budgets. There is a loss of tax revenue associated with vacant properties, and there are rising costs associated with foreclosure-related services, such as increased policing to deter crime around abandon properties.

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For communities and borrowers grappling with these problems, we need to focus on what can be achieved in terms of foreclosure prevention. Loss mitigation is the program of choice for many lenders and servicers. Loss mitigation can offer a solution for everyone: Helping a borrower stay in his or her home not only benefits the borrower, but also transforms a nonperforming loan to performing.

Loss mitigation can occur in many forms. It could be a forbearance agreement in which a lender agrees to abstain—that is, forbear from taking action against the borrower. This gives the borrower some breathing room, and forbearance agreements are not subject to strict formulas. The agreement in terms of repayment is almost entirely dependent on the negotiations between the parties. What they decide is what the agreement will state.

Loan modifications are also a tool of loss mitigation. With a loan modification, there is a permanent change in one or more of the terms of a mortgagor's loan. The modification allows the loan to be reinstated, and results in a payment the mortgagor can afford.

Deed in lieu is another option in loss mitigation. With a deed in lieu of foreclosure, the borrower conveys all interest in the property to the lender to satisfy a loan that is in default and avoid foreclosure proceedings. While the borrower does not retain ownership of the home, he or she is immediately released from most or all of the personal indebtedness associated with the defaulted loan.

Consent judgment entries are also a part of loss mitigation. In a consent judgment, both parties agree to a binding judgment with a particular outcome. This is used in order to settle an issue before a court and to end litigation. A consent judgment is often rendered by a judge in the form of a consent decree.

Ultimately, the options for loss mitigation depend on the borrower's circumstances and financial ability, as well as the lender's loan portfolio.

There are no easy answers to how we can best minimize the negative impacts of foreclosures on our cities, neighborhoods and families. Effective loss mitigation requires counseling, understanding and patience on the part of both parties. But by exploring and offering this alternative to foreclosure, we can better achieve our number-one objective: "keeping the borrowers in their homes." □

To learn more about loss mitigation or other services provided by CUC Mortgage, visit www.cucmortgage.com, or contact Richard Maxstadt at richard.maxstadt@cucmortgage.com or (800) 342-9835, ext. 8115.