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## Are the Asset Managers and Loss Mitigation Reps Stupid or What?

I get this question all the time – “Are the Asset Managers and Loss Mitigation Reps stupid or what?” Usually the person telling me that goes on to relate that he/she heard certain lenders are hiring former restaurant dishwashers for these important positions. I can’t confirm if that’s true, but there are some really interesting people in positions of authority at local and national banks.

My take on the situation is that most Asset Managers have worked their way into their position after doing loan modification and short sales within that lender or the banking industry. They are more trusted individuals because of their experience and the control they have over the sale of REOs. The individuals handling short sales and loan modifications are a different breed because they generally have limited decision making experience and are mostly overwhelmed by the volume of their work. PS – in some cases actually bitter about their hourly JOB versus an investor making so much money on “their properties”!

Let’s first look at Asset Managers because they have the final “disposition” responsibility for toxic properties. From their perspective they have to deal with investors. In some cases only a few investors will even buy the vast majority of these hand-me-downs and especially the ones that come with liens attached. There is no question that they will sell these properties, the only issue is controlled release of the portfolio and the degree of Federal Government guarantees that go along with the losses on these properties.

These individuals insulate themselves from the investors by paying realtors® to show the properties (when they get shown) in exchange for an average commission of five percent (5%) of the sale price. To get these REOs to sell, these listing agents may have to also take care of management of the properties. This isn’t a bad deal for the lenders or the agent because both know the end result will be the sale of the property. There can be that sticking point of code liens, code violations and water/sewer bills that have to be resolved or passed on to an inexperienced investor. If the going gets too tough because of accumulating fines, the answer of last resort is always to donate the property to the city.

Many city commissioners blame the lenders for the devastation of neighborhoods, and frankly they are correct. It was not the investors that were at fault, as the lenders profess. It was these very lenders who virtually gave money away to people who later could not afford the mortgages. Enough pointing fingers, let’s get back to restoring neighborhoods and selling to homeowners who can afford the loans and want to live in clean homes. All that is needed is for these same lenders to once again make money available.

As for the REO properties, the listing agent runs the risk of losing his listing and future listings if he/she can’t get a “real” buyer to close on the property. The dynamic that has changed is that a storm of new and a few seasoned investors are bidding on REO properties as soon as they are listed on the MLS®. They are creating a firestorm of confusion by bidding on properties they have no intention of buying and holding – just getting under contract and then flipping to another investor. Sound illegal or immoral? It’s not, and it is the basis of real estate investing for every investor including the Donald.

Presumably the Asset Manager eventually gets the highest and best offer from the wall of noise and everyone focuses on closing and getting rid of their toxic properties. And, if the closing happens, all is well. But more likely the closing doesn’t happen and it goes back on the market.

I said “presumably” above because in our experience (even as late as yesterday), we know from the price action that the Asset Managers are not getting a square deal from every listing agent. When a property is sold within a couple of minutes of being listed on the MLS®, there is no chance for a legitimate bidding situation to happen.

If you are a licensed realtor® and have been in the business for more than two weeks you have to admit that you can find properties that have sold below the offering price from your client. If you followed up with the listing agent, he/she has probably said “The Asset Manager took a stronger offer.” Why is one cash offer stronger than another cash offer? Well, think commissions to the listing agent versus splitting them with another buyer’s agent. Being perfectly frank, the Asset Manager only sees what the listing agent shows him. The lenders, who understand this, are working toward doing more online auctions of the properties to reduce this “insider trading”. If you are involved, it is paradise, if you are trying to get deals, it is fraud – which one is it for you?

Asset Managers will continue to be blinded by the snow storm of misinformation from the local level and will eventually sell the properties because they have to get them off their books. Listing agents will continue to play the game of “Give me your highest and best offer” only to follow with “More offers came in at the last minute, if you just offer \$5,000 more you will get it – I promise”. Unwittingly, investors will continue to buy these distressed properties and have extremes of success from absolute failure and financial ruin to “hundred pounders” (\$100,000+ profits) after rehabbing and taking extended market risks.

But what about the Loan Modification Reps and Loss Mitigation Reps (short sales)? The Loan Modification Reps have to contend with the first onslaught of delinquent homeowners. These homeowners are generally honest people that have a hardship and want relief from their excessive mortgage payment. Not included here are the estimated 14,000,000 Americans who are upside down on their mortgages and want an answer to this question “Why should I pay on a mortgage that I will never get my money out of?” or “Why shouldn’t I stop the blood (money) loss, give back my home to the bank and rent?” They are right, but being honest people, most keep trying to make their payments until they get to a breaking point.

Loss Mitigation Reps seem clueless about solving the problem. Often just an interest rate reduction isn’t enough to stop the problem and a few principal reductions have actually happened, but very few to date. The lender is better off to take the property back by a “Deed in Lieu of Foreclosure” than reduce the principal amount of the mortgage. After all, the lender will have to reduce the principal amount anyway to sell it so why do the homeowner a favor?

The absolute solution is a “mark to the market” principal reduction across the board for every homeowner instead of the government financially patching the lenders one at a time. If you haven’t thought about it yet, the same principal reduction effect will happen when we have hyper-inflation to repay the monstrous deficits our government is accumulating. Cheaper dollars repaying loans from the past – this killed the German economy in the 1930’s and brought anarchy to the German People.

Loan modifications are not all that interesting to investors, but short sales are. Short sale decisions are made by Loss Mitigation Reps at the lenders. People complain about it taking months and months to get one done and then at the last minute the Loss Mitt Rep changes his mind. Others brag about buying a property by doing a short sale in just 2 – 3 weeks! So to get it off my chest, the 2 – 3 week people have grossly over-paid for the property. If you have a buyer to sell it to, it doesn’t matter. If you are going to live in it or just get a commission on the

sale, it doesn't matter. If you are going to try and make money as an investor in the property, I wish you the very best. Remember what the experts say "Don't worry, if you hold on long enough and put enough money in the property you will eventually be able to sell it, but not necessarily at a profit," You can tell it isn't their money in the property!

Here is the big joke – the Loss Mitt Reps are authorized to take 80% of the BPO (Broker's Price Opinion) as the bottom line – on the first go around. A larger discount has to be approved by a Supervisor. If it isn't sold, the lender will ultimately take less as an REO. The property then comes to the Asset Manager for final disposition. The Loss Mitt Rep will almost always do much better by waiting for bids to come in on the property as the listing agent works the listing. Even when the investor's contract is accepted in writing, the lender's Addendum almost always stipulates that if a higher offer comes in before the closing, the lender can accept the new higher offer.

I am sure readers can take offense or give perfect examples where they have not seen the above screwy things happen. I am happy for their naiveté's. When they have completed a few thousand of these deals, then have them tell me they haven't had any problems. Until then, you should keep an open mind and be prepared for anything to come from the lenders and their representatives. These lenders have structured their compensation system to favor holding out on solutions to homeowners, and investors, in hopes of making more money on the now bad loans they originally issued on these properties.

Be careful out there!

To your limitless success,

Dave Dinkel