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Beleaguered borrowers get help

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By: Judy Martel

When Frank Giacomelli, president of Great American Mortgage & Capital, attended a Palm Beach County foreclosure sale last week, the first thing that struck him was how easy it was to find a seat. A year and a half ago, the room was brimming with eager investors.

The second surprise for Giacomelli was that no one among the 15 attendees was bidding. The banks took back every one of the 20 mortgage foreclosures on the block. In a conversation later with a regular foreclosure buyer, Giacomelli learned investors are still stuck with property they bought months ago.



Frank Giacomelli's company offers short-term, interest-only loans that can keep borrowers afloat.

The slowdown is the latest turn in the region's deepening foreclosure crisis. South Florida foreclosure filings counted by the Daily Business Review have tripled in a year from 5,533 in July from 1,841 a year before.

When borrowers are upside down, meaning they owe more than the home's value, the bank usually ends up taking the property back even though they prefer to avoid it, Giacomelli said.

A combination of borrowers' ignorance of where to find help and a large volume of homeowners needing assistance is taxing the organizations offering help, and homes that might have been saved come up for auction.

Giacomelli's Palm Beach company specializes in foreclosure workouts, but he said even he can't do much for homeowners who have wasted time hoping for the market to turn around again or who got in over their heads with unaffordable loans.

He offers short-term, interest-only loans that are meant to last 12 to 18 months until borrowers regain their financial footing. By that time, the owners either must obtain a traditional loan or sell the home. Giacomelli sells the loans to investors accustomed to receiving a high return on their investment.

Giacomelli hasn't seen a big increase in his business because he can only help borrowers threatened with foreclosure if they are able to make some type of payment and have clear title to the property.

The foreclosure process is complex and frightening for homeowners, and most don't have a clue where to turn for help, Giacomelli said. "Once they get a sale date for the property, they're really stuck."

Nonprofit agencies are trying to fill the gap in homeowner assistance and are recruiting church groups, real estate agents and brokers to help them counsel homeowners and prepare the paperwork needed to negotiate with banks on repayment plans for delinquent borrowers.

No fee changes hands for these services, said Marcos Rincon, executive director of the League of United Latin American Citizens, parent of the Dallas-based National Housing Commission.

Many homeowners are shy about contacting lenders if they have trouble making payments, but they will contact their real estate agents, Rincon said.

"Often, the Realtor doesn't know what to do except sell the house," he said. "That is the last resort in our mind. Many people can pay a mortgage but have fallen behind six months or a year."

By partnering with and training real estate brokers and others in the industry, professionals can help more homeowners to keep their homes, Rincon said.

The housing commission created three years ago by LULAC has a 99 percent success rate in helping homeowners avoid foreclosure, Rincon said. The group's mission is to promote home ownership among Hispanics, who typically lag behind the other groups.

The foreclosure work came about "quite by accident," Rincon said. Initially, the commission was set up to educate Hispanics about mortgages and finance.

Homeowners who completed initial counseling that included learning how to budget almost never come back in a foreclosure situation, he said. But the volume of people seeking help with foreclosures has propelled the group to establish assistance programs.

"We have 300 foreclosure cases in Florida right now," Rincon said. "We're solving 60 to 80 cases a month."

When LULAC partners with other organizations like credit counseling services, he said they can easily double that number.

LULAC offers free one-on-one counseling to homeowners as well as seminars like foreclosure clinics offered in June. More than 200 people attended a session in Orlando, but only about 30 were present in Miami.

"The mistrust in Miami is really severe against brokers and Realtors," Rincon offered as an explanation.

He also cited a lack of awareness about the clinic and a lack of church group involvement. "The backing of the church adds credibility," Rincon said.

The problems in Florida in particular are exacerbated by a market where values are falling well below mortgage amounts.

the debt, with the difference in the loan amount waived for the homeowner, Rincon said. But the differences in Florida are often much more than 18 percent.

"It's hard to expect a bank to eat \$100,000 off one loan," he said. "Values in Florida have gone so low that the bank can't afford to discount 30 to 40 percent and more. It's a bitter pill."

Another nonprofit agency, Neighborworks America, maintains an office in Palm Beach County named Housing Partnership and one in Miami, Neighborhood Housing Services, to counsel homeowners and work with banks on delinquent loans.

Aarden Shank, executive director and president of the Miami office, said the group is one of the few agencies of its kind that also can make loans. If a borrower with an adjustable rate mortgage comes in just ahead of a rate hike, they can refinance it into a fixed loan.

Funding for the organization comes from a grant from Miami-Dade County and donations from area banks.

In addition to counseling and working with lenders to avoid foreclosure, Shank said borrowers can work with an attorney to stop foreclosure in predatory lending situations.

Homeowners facing bankruptcy often turn to legal aid groups, which offer free services to clients who qualify. According to George Castrataro, supervising attorney of Legal Aid Service of Broward County, said his office sees an average of 25 to 30 clients a week who face some sort of foreclosure, a 30 percent to 50 percent increase over last year.

There are basically two solutions for homeowners who are in an upside-down situation, he said. A deed in lieu of foreclosure means the homeowner surrenders the deed to the bank. Some people who have worked hard to own a home find that akin to giving up, Castrataro said, making it a less popular solution.

Under Chapter 13 of the U.S. Bankruptcy Code, attorneys can formulate a plan to keep the home and remedy the situation by spreading the delinquent debt over 59 months as an alternative to paying the full amount at once.

The increase in foreclosures has more to do with homeowners being overextended than it does with unfortunate situations like death and divorce, said Shari Olefson, a partner with Arnstein & Lehr in Fort Lauderdale.

She is seeing a second wave of foreclosures in Alt-A loans now that the subprime market has crashed. Alt-A loans without full documentation, geared toward investors and people with second homes, were given to people who are normally good credit risks.

But many investors are stuck with loans they can't afford. "People were just too highly leveraged," Olefson said.

One of her clients is ready to go into bankruptcy because he owns five properties worth more than \$1 million.

Olefson puts some of the blame on the FHA, which didn't raise lending limits as fast as the rate of appreciation, she said.

In the past, stringent FHA requirements prevented buyers from going in over their heads financially, she said. But once real estate prices rose and FHA lending limits stayed stagnant, she said borrowers turned to the subprime market.

"In a way, our government really let us down," she said.

Arnstein & Lehr does a fair amount of workouts with banks, Olefson said. Many banks outsource their loss mitigation or workout departments to law firms rather than

Washington Mutual, with 14 home loan centers in South Florida, is well-staffed to handle loss mitigation, and partners with groups like Neighborworks on a national level to help borrowers facing foreclosure, said spokeswoman Nova Barnett.

The bank's Web site and statement inserts encourage homeowners to contact the bank in anticipation of missing a payment.

"If they're already delinquent and need assistance, we look at it on a case-by-case basis," she added.

Washington Mutual will work with clients on payment plans if they are delinquent but still are able to resume mortgage payments soon. The bank considers discounted foreclosure sales a last resort because it's a long and expensive process.

The bank also began a program with other lenders to provide workshops, and invited borrowers facing delinquency to attend.

After the seminars, bankers met with homeowners one on one, and worked out solutions. The program was met with success in Atlanta, Dallas, and Chicago, and Barnett said the bank plans to conduct one in South Florida in the future.

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Frank Giacomelli photo by Melanie Bell