Do You See Points of Distress?

Despite a nationwide decline in troubled assets, there is still business to be done

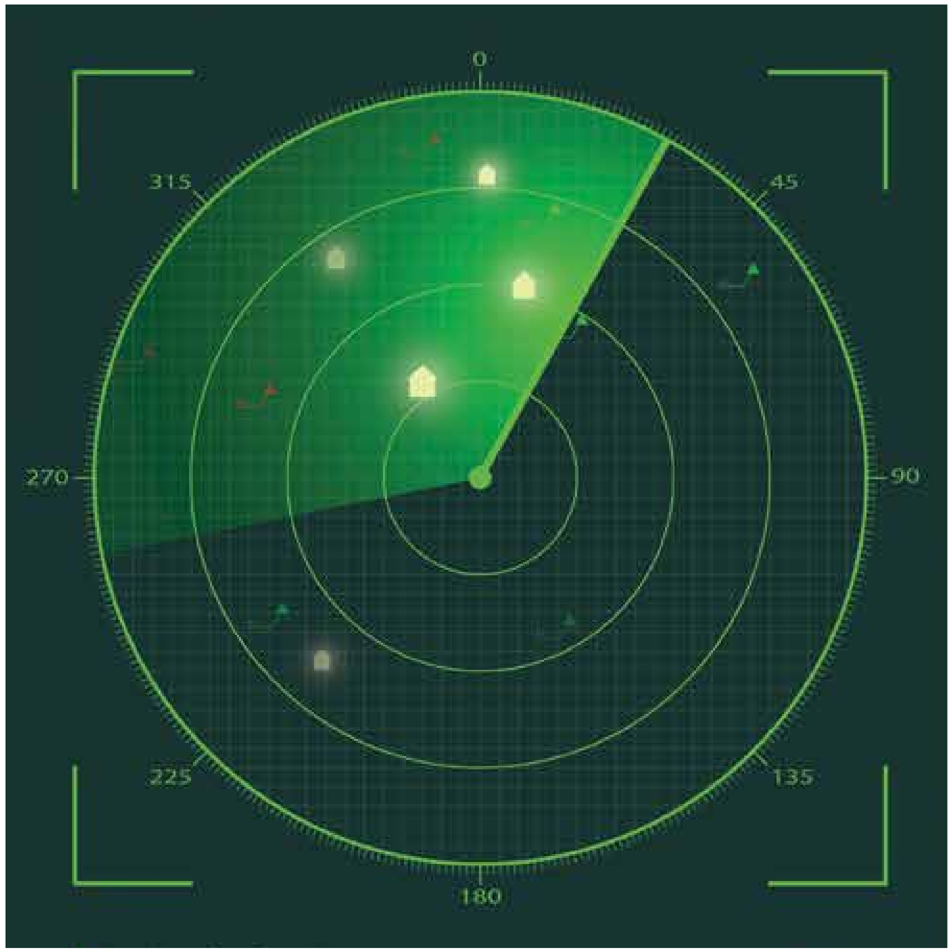
By Amy Bergseth

A nationwide decline in foreclosures and a diminishing number of underwater homeowners is obviously good news for the country and its housing market. For mortgage originators who specialize in distressed properties, however, this stabilization may actually cause some stress.

This does not need to be the case, however. Even as the number of distressed properties declines, the total remains high enough to provide brisk business. To ensure they benefit from this remaining business, originators should know what areas — and, as importantly, what partners — to keep on their radars.

The housing industry is in recovery, at last, and the foreclosure crisis that cost millions of Americans their homes is in the rearview mirror. The many foreclosed — or real estate owned (REO) — properties that were washed out of the market in the wake of the financial crisis are now largely back in the market, and borrowers are starting to recover. Many of those impacted by the crisis have already bought new homes.

There remain distressed properties on the market, however. CoreLogic, a real estate data company, reports that 36,000 foreclosures were completed nationwide this past March. Although that is a 14.9 percent drop from March 2015, it also is still a lot of potential business if you live in the right part of the country — and, in truth, it may not be that much of a drop in this type of business for most mortgage originators.



In the early days of this cycle, many of these distressed properties were snapped up by large investors for cash. This led to the rapid growth of a number of large residential buy-to-rent companies. That activity is leveling off now, and more mom-and-pop investors are moving into this market.

This can make life more difficult for real estate salespeople. When companies funded by large Wall Street hedge funds made the decision to dump cash into distressed real estate instead of other investments, life was great for real estate brokers. In many markets around the country, all they had to do was list the properties and wait for the offers to roll in.

Today, real estate agents have to wait for financing to be arranged before they can close the deal and get paid. In the age of the Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Disclosure rule, better

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known as TRID, that can take 45 days or more. As you might imagine, Realtors today are not as excited about REO as they once were.

Making contacts

The key to profiting from distressed properties in today's market is to build relationships with the Realtors who are selling these properties. As the market cools, this work is finding its way to the best salespeople in the field. You can bet that if you find a Realtor selling REO, this is one of the better agents in your region. The others have likely moved on to easier work.

With that, however, comes a catch. If you want to work with these professionals, you have to be good at what you do, too. REO sales agents are looking for mortgage referral partners who know how to close on time — and who then work to reduce the time it takes to close. They expect originators to be available and ready to do pre-qualifications as soon as they find an interested buyer. If you can get a preliminary approval to them so they can get to the contract stage quickly, you will get their business.

Part of this involves finding out which real estate brokers are actively engaged in selling REO. Because you need to branch out and meet these people anyway, get on the phone. Call them up, and if you can discuss their process with them, you may be in a position to make some promises you can live up to later.

Meeting expectations

You make promises every day — to lenders, your wholesale lender, regulators, business referral partners, borrowers and more. The better you are at making good on those promises, the more successful you will be. If you repeatedly prove that you can't live up to your promises, you won't be in position to build relationships with those top Realtors, or with anyone else in the business.

A little further upstream from you, past the real estate salesperson and other immediate referral partners, is an asset-management company. They have made promises to one or more servicers that they can bring together a team to get these properties sold and back into the market — and off of investors' books. These companies are adept at putting a significant amount of pressure on the sales agents they work with. You can expect some of that pressure to flow downstream.

For originators working in the new-mortgage business, however, this shouldn't be anything new. Many people are counting on you to get the job done right and as quickly as possible. It's no different in the distressed real estate business. The only difference is that timelines are often set by statute, in the case of government-backed loans, and the servicers' ability to move those properties will have a huge impact on investors' overall loss severity.

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Although the national foreclosure crisis is over, there will always be regional or local crises that cause property values to fall. These distressed properties will find their way into investors' portfolios and then as REO back into the market.

REO can still be a profitable niche if you can find the right business-referral partners and meet their needs. For many of these transactions, borrower financing will be important, and that's your opportunity to shine. ■