



## **In Lieu of Foreclosures, Auctions Serve as CRM Tool**

MBA (1/5/2007) Murray, Michael

Pre-foreclosure, a procedure usually initiated by a borrower rather than lender, can provide a potential workout for the borrower and serve as a customer relationship management (CRM) tool for servicers of real estate owned (REO) properties.

The Assisted Sale Auction Program (ASAP), started last year by Williams and Williams, Tulsa, Okla., is a means for servicers and non-profit credit counselors to work with borrowers who can no longer afford their property. It is a “workout opportunity for pre-foreclosure,” according to Dean Williams, CEO of Williams and Williams.

Mortgage banking servicers may or may not have control or authority over netting the most money on the asset sale. They also have a much broader set of issues, depending on whether the loan is in a portfolio or securitized, according to Williams.

“Their job is mostly to perform within the predefined guidelines, such as time management and valuation issues, and they may or may not have as much flexibility themselves in each of the closer-in issues for each particular asset,” Williams said. “That has been an interesting learning curve to deal with. It is a very large, significant business and yet when it gets to real estate assets that are owned, it has many layers to it.”

Williams said the ASAP program is transparent: all parties can view the property value and it is “time definite.” The firm becomes a service provider for mortgage servicers and investors tied to REO properties.

Williams views this process as another option for the borrower to stay in the home and an experience that could give the borrower a better opportunity to reenter the housing market—perhaps with the same lender. Prior to ASAP, borrowers would initiate contact with the Williams and Williams firm to help auction their home within the standard 35 days it would take to sell the property.

“In 35 days, there is full market value and if the servicer can evidence a lesser loss for the investor, then it should be a win for everybody across the board,” Williams said.

REO properties are not necessarily the only focus for Williams and Williams. The firm will work with companies on relocation programs; commercial services that find auctions as a more efficient means to sell and/or own assets; and private owners.

However, in December, the Mortgage Bankers Association released its National Delinquency Survey (NDS) showing an increase in delinquency and foreclosure percentages for the third quarter as the housing market moves through a correction.

The percentage of loans in the foreclosure process was 1.05 percent of all loans outstanding at the end of the third quarter, an increase of six basis points from the second quarter of 2006, while the seasonally-adjusted rate of loans entering the foreclosure process was 0.46 percent, three basis points higher than the previous quarter. Compared with the third quarter



of 2005, the percentage of loans in the foreclosure process was up eight basis points while the percentage of loans entering the foreclosure process was up five basis points.

Williams said the mortgages for homes auctioned have “run the gamut” and are not necessarily subprime or non-traditional mortgages. The home auctioned from a subprime REO servicer, for example, would be far different from a corporate relocation program that could include a million dollar home.

“Once we get the asset and taking it to market, it’s a property-driven issue,” he said.

Just as 90 percent of auctions are property-driven by location, 95 percent of people who will purchase a home through an auction are in proximity to the house. Auctioned homes have increased by 100 percent for four consecutive years and Williams expects the same increase, or more, this year. Williams said auctions are becoming a more accepted alternative to selling a home. For one reason, as home values decrease, time also becomes a factor to sell the home.

“The real estate asset is depreciating standing vacant and for sale, and it costs money to own it,” Williams said. “Time is a major issue.”

Most onsite auctions have occurred in Michigan, Ohio, Indiana and Pennsylvania as well as the Carolinas and Georgia .

“We were not receiving any assets from the mortgage banking division in California until about a year-and-a-half ago. Now, we receive assets every month in California but they are still not the volumes we have historically been living with in the Rust Belt states,” Williams said.

He noted that market demand versus absorption has favored more absorption despite declining home values. The average per property listing is 7.6, down from an 8.7 average one year ago, according to Williams.

“We think that is a reflection of the other macro-story, an increase of home for sale inventory,” he said.

While residential properties have higher volume but lower values, commercial property values are higher with lower volume. Commercial properties are more likely to be vacant or industrial property. Williams said income-producing properties tend to not go to market as the real estate investment trust (REIT) market gains liquidity.