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Who can stay? Who must go? Who goes under?

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Roxanne Sleva and Scott McCune don't know each other. But they've both learned that efforts to save troubled mortgage loans can be painful and sometimes unproductive.

Loan rescues, known in the industry as workouts, are raising a sweat among lenders and borrowers alike. And their success rate may not be much higher than workouts in a gym.

Despite new government and lender initiatives that promise help is on the way, borrowers and brokers complain of long waits to connect with loan representatives, unreturned calls and conflicting information.

"Once you get behind, you're always behind. You're never ahead," said McCune, a St. Louis Park resident who believes a loan modification last spring gave his family "false hope."

Sleva, a Big Lake resident, has tried everything to avoid foreclosure on the home for her family of four. Nothing worked -- not refinancing, not negotiating a settlement on her second mortgage and not asking for a revision of her loans.

Many lenders in Minnesota, after years of promoting easy credit, are scrambling to keep up with the swelling numbers of borrowers in financial distress. One of their most challenging tasks: How do you figure which borrowers warrant a "yes," "no" or "maybe"?

The lenders' motives aren't charitable. A foreclosure, when a bank takes possession and ultimately resells the property, costs the lender an average of \$50,000 in legal, upkeep and sales expenses.

That's nearly \$1.6 billion in foreclosure losses, in Minnesota alone, that lenders are eager to avoid. Or should be.

At the end of 2007, more than 31,000 Minnesota homeowners were seriously delinquent on their mortgage payments -- 90 days or more overdue or in the process of foreclosure, by the count of the Mortgage Bankers Association. At the end of 2006, the number of seriously delinquent stood at about 17,700.

"It's a tremendous task to process all these loans that are in the foreclosure process," said Celia Chen, director of housing economics at the website economy.com.

Collateral has evaporated

"I had high hopes, in the beginning, that we'd be able to help more people than we've actually been able to help," said Kris Wilson, loan officer at Summit Mortgage in Bloomington. Summit tries to write new home loans for people who can't pay off their current mortgages.

Investors in Minnesota home loans may live in other states or countries and be hard to reach, especially when the topic is writing off all or part of their loans. As often as not, Wilson has been unable to reach investors in home equity loans. Investors in those debts have second claim on assets when a house is sold, effectively guaranteeing a loss if the home's value has fallen.

Some of these lenders refuse to go along with refinancing plans that will repay some, but not all, of their outstanding home equity loans, she said.

"These people already lost their money," Wilson said. "Their collateral has evaporated. It isn't there. What we're asking [the lenders] to do, in many cases, is simply recognize that."

Twin Cities-area lenders aren't waiting for calls. They're making them.

They've hired extra workers to contact homeowners behind on payments and urge them to come in to discuss ways to work out of their debt crunch. Some had devised new loan programs to present alternatives to foreclosure for people having trouble making payments or living in houses now worth tens of thousands of dollars less than their outstanding mortgage balances.

U.S. Bancorp is sending delinquent homeowners a DVD meant to suggest that scary stories can have happy endings. It's aimed at coaxing borrowers to talk to the bank about how to catch up on payments or qualify for new loans to reduce monthly costs -- and raise the odds that the bank is repaid.

"The biggest problem that lenders face on defaulted loans is getting in contact with borrowers," said Gregg Speer, U.S. Bank Home Mortgage senior vice president and default administration manager.

In pursuit of borrowers, Speer has increased his staff to 65, from 35 last year, and worked to make the approach to customers not resemble the manner of "old-fashioned bill collectors."

"Our mentality is [that] we want to know what the borrower's situation is and how we can help them to make that payment," he said.

Like other lenders and mortgage servicers, U.S. Bank Home Mortgage offers a medley of alternatives for hard-pressed borrowers, from new loans that tack on the amount owed from unreceived payments to a six-month pause in payments to a loan with longer terms and lower monthly payments.

If someone didn't pay this month's mortgage because of having to replace tires on the car or purchase a new furnace, that's a problem that can be handled with a repayment plan, said Patrick Carey, Wells Fargo Home Mortgage senior vice president of default and retention operations. That means adding money to the monthly payment until the debt is repaid.

Divorce, disability or job loss suggests the need for a new loan stretched over many years -- if the homeowner has the means and will to work with the lender to keep the house, Carey said.

In the fourth quarter, Wells Fargo Home Mortgage posted a foreclosure rate of 0.88 percent of all outstanding home loans, compared with 1.18 percent for the industry.

"It indicates our success in doing loss mitigation," he said.

Brad Krogman, Bremer Bank vice president of loan administration, has never in 31 years as a banker seen a problem for lenders of the size, scope and complexity as deciding which homeowners to help and which to write off.

"It's a whole lot harder right now," he said. "It's a 100 percent change from what it was."

Bremer last year wrote off \$8.5 million in loans, most of them second mortgages. In 2006, the total in that category at Bremer was \$2.4 million.

While 97.5 percent of Bremer's mortgages are not delinquent, the job of managing those that are has grown. At the end of 2006, Bremer had workouts going on 5 percent of its distressed home loan portfolio. By the first quarter of this year, 20 percent of such loans were in workouts.

"Just a home"

Changing family economic circumstances add to uncertainty about who will stay and who will go.

In Big Lake, Sleva's business cleaning new residential construction had all but dried up and she knew her family would have trouble staying current on the mortgage. So in October, she contacted her lender, hoping to work out a deal before falling behind on her payments.

"They said 'not unless I'm 30 days late or more,'" she recalled. Sleva, 40, said she answered: "I'm not 30 days late, but I don't want to be."

Saving her home became her new job. She's spent hours on the phone with her lender, sifting through conflicting information and explaining her situation several times to call-center employees.

Now, time has run out. She made the March payment but can't afford April's. When a mortgage representative called to ask about her late payment last week, she was offered a payment plan that would require the Slevas to pay \$1,000 a week for seven weeks, an impossible sum. On Wednesday, a housing counselor suggested the family file for bankruptcy and allow the house to go into foreclosure.

The McCunes' May modification on their St. Louis Park home dropped the payment from \$2,500 at a 13.5 percent interest rate to a \$2,058 monthly payment at 8.2 percent. But it still wasn't enough.

In the past two years, the couple's income was cut in half -- first when Scott, 54, went to culinary arts school and switched careers, then when Joyce, 49, lost her hospital administration job of 24 years. They tapped retirement savings and used the \$200 their Marine sergeant son sends them each month to try to keep up with the loan modification.

But in October 2007 a couple of checks bounced and the loan modification failed. The couple is waiting to hear if a second loan modification will be approved. The process stalled the foreclosure sale and gave the couple time to try to sell the house instead of having it taken away.

Even if another modification is approved, Scott doubts they'll stay in the home. They can't afford to unless the lender reduces the principal owed. If they rent, the couple could begin to rebuild their savings.

"Do you stay where the memories are or get on with life?" he said. Financially the answer, while painful, is crystal clear to Scott: "Your home is no longer an investment. It's just a home. It's a place to be."

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