Reuters

Avoiding home foreclosure starts with picking up phone

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By Jim Christie

SAN FRANCISCO (Reuters) - U.S. lenders trying to get people to pay overdue bills on risky subprime mortgages expect half of those borrowers to avoid telephone calls and letters that could help bail them out.

That reaction ensures the mortgage default rates that rattled financial markets last week will rise well into next year, said Duke Olrich, president of DRI Management Systems Inc., a Newport Beach, California, developer of software for managing mortgage and automobile loan defaults.

"If you can't get a hold of them you can't make a deal," Olrich said.

Based on past experience, mortgage professionals anticipate half of subprime borrowers, or people with no or spotty credit histories who took on risky mortgages in recent years, will avoid attempts to contact them regarding overdue payments, the first step in salvaging the loans, Olrich said.

"2007 and a good part of 2008 is still going to be a difficult time," Olrich said in an interview.

During the housing boom, adjustable-rate mortgages allowed subprime borrowers to buy homes out of their reach with conventional mortgages. As low initial interest rates expired and significantly higher rates kicked in, mortgage payments jumped to levels many borrowers could not afford.

After 60 days without a payment, lenders fear a default. "Sixty-plus you're well on your way out," Olrich said.

Most lenders try to contact borrowers quickly to see if a failing mortgage can be restructured to avoid an average loss of $50,000 when a bad loan forces foreclosure, Olrich said.

"The objective of the servicer is to keep that borrower in the property," he said. "There is this

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myth out there that they're making money hand over fist on taking a property to foreclosure. It's exactly that, a myth. They're losing their shirts."

The jump in defaults of subprime mortgages over the past year, however, has triggered significant turmoil among many lenders, foremost among them, New Century Financial Corp. (Other OTC:NEWC.PK - News), the largest independent U.S. subprime lender.

TAPPED OUT, NO HOPE

Amid the confusion, homeowners like Lupe Perez say they went neglected. Perez said she faces an imminent foreclosure on her Sacramento, California, home after falling behind on mortgage payments.

"I feel conned," Perez said, noting she agreed to the loan's adjustable rate only after her loan officer assured her she would be able refinance later. But with her neighborhood's home prices down, lenders will not refinance, she said.

The 28-year-old state worker said she cannot afford her mortgage because its interest rate is at 11 percent, up from a 5 percent rate that expired late last year. She said losing the three-bedroom house will mark a personal defeat as she put $40,000 from the sale of an inherited house as a down payment.

"I'm tapped out," Perez said. "There's no hope."

Her case does not surprise Patrick McGilvray, president of TheHomeBuyingCenter.com, a Sacramento company matching distressed homeowners with individual investors and prospective home buyers. Some lenders were sloppy during the housing boom because of the volume of business they received, he said.

"There was a record number of originations of loans," he said. "Facing explosive growth, balls get dropped."

Little thought was given in recent years to the future costs of easy money, Olrich added: "A lot of loan brokers were out there and I'm not sure they told the whole story," he said. "Maybe, they (borrowers) didn't know all the questions to ask."