

REO SERVICER PARTNERSHIP GUIDELINES

*Prepared By
The Vacant and Abandoned Property Action Council (VAPAC)*

The mission of VAPAC is to explore solutions to the challenges created by foreclosure and property abandonment, share information on new challenges and successes, and help coordinate the resources of the various institutions and governmental entities confronting vacant property and foreclosure issues.

VAPAC believes that the lender and servicer industries and municipalities all have a common economic interest in stable neighborhoods, protecting property values, preventing blight and disinvestment and promoting stable homeownership. These 'Servicer Guidelines' are discussion points meant to ensure meaningful, productive discussion with the Servicer Industry aimed at agreeing on principles that will shape our collective future actions. VAPAC views these discussion points as the start for any future discussions. In addition, VAPAC expects that servicers will adhere to the Servicing Guidelines which are part of the 2012 National Mortgage Settlement. Any information contemplated herein refers to all properties that are in a servicer's portfolio, not just the properties in which the servicer possesses an ownership interest.

SUMMARY

1. **Data sharing:** Servicers should provide municipalities with lists of REO properties they own and with lists of REO they manage for other financial institutions as well as a list of all properties, for which a foreclosure lawsuit has been filed.. Servicers should provide municipalities with contact information of the person at the servicing company who can make decisions regarding property disposition and property maintenance.
2. **Loan Modifications with Reduction of Principal to 95% of Appraised Value**
3. **Lien Assignment/Release/Transfer:** Establish criteria under which the servicer would assign a lien to a governmental entity or its designee.
4. **Low Value Property Pool Programs:** Establish low value pool programs.
5. **Prevention of Sales to Unscrupulous Buyers**
 - i. Discontinue bulk sales to investors.
 - ii. Require that property taxes are paid at the time of sale, either by the lender or the buyer.
 - iii. Comply with Point of Sale requirements.
 - iv. Vet all investor buyers of REO properties, and those who control their investing actions.
6. **Prevention of Walk-Aways:** Stop all 'walk-aways' and continue efforts to transfer title to a third-party by using the sheriff's sale process, or other responsible transfer approach on all REO properties.

BACKGROUND & DETAIL

1. Data sharing

- a. **Goal:** Protect housing assets.
- b. **Recommendation:** Servicers should provide municipalities with contact information of the person at the servicing company who can make decisions regarding property disposition and property maintenance (name, address, phone number and email) at each stage of the foreclosure process (foreclosure filing, post Sheriff's Sale, etc.), including cases where they have taken control of the property (e.g. a deed in lieu of foreclosure) but a transfer has not yet been recorded.
- c. **Background & Rationale:** Data sharing is beneficial to both communities and servicers in order to enable early action that could protect the asset. Properties in foreclosure have a higher likelihood of becoming problem properties in neighborhoods because property maintenance is often deferred, and they frequently become vacant and vandalized during the lengthy foreclosure process. Both cities and servicers have a shared interest in ensuring that servicers can be contacted regarding property condition and disposition. Since the public record identifies only owner information, servicers will not routinely receive notices of code violations, hearings, criminal activity, vandalism, or other occurrences that affect the property in a timely manner, unless they provide contact information themselves. When cities' only contact information is an out of state, generic head office address, the likelihood of information getting to the servicer promptly to protect the asset is unlikely. Routine sharing of contact information between cities and servicers also ensures that servicers are made aware early on of any local requirements relative to the property, and can prevent wasteful litigation.

While we are aware that servicers have requirements under the Fair Debt Collection Practices Act (FDCPA) which proscribe revealing any non-public 'identifying information' about the debtor or the existence of the debt to any unauthorized third-parties, it does not apply to the information sought here. The FDCPA does not apply to the collection of mortgage notes, unless the creditor took possession of the debt AFTER it was in default (which is quite rare). Secondly, the information sought is already public and is regularly disclosed to municipalities that have vacant property and/or foreclosure filing ordinances.

2. Loan Modifications with Reduction of Principal to 95% of Appraised Value

- a. **Goal:** Stabilize the housing market by keeping more people in their homes.
- b. **Recommendation:** Establish loan modification programs similar to the well documented, successful program being implemented by Ocwen Financial since 2010, which reduces principal to 95% of the current appraised value and has a re-default rate of less than 8%.

These properties represent the majority of eventual demolition candidates. For cities, low value properties are frequently the target of unscrupulous flippers, and represent the majority of the causes of neighborhood blight. Both HUD and Fannie Mae have recognized this and established low value pool programs which direct these properties to the Cuyahoga County Land Bank (CCLRC), allowing the servicer to focus on marketing the properties with value. Currently, it costs the CCLRC on average \$10,000 to carry out a demolition.

5. **Prevention of Sales to Unscrupulous Buyers**

a. **Goal:** Responsible disposition of REO properties.

b. **Recommendations:**

- i. Discontinue bulk sales to investors.
- ii. Require that property taxes are paid at the time of sale, either by the lender or the buyer.
- iii. Comply with Point of Sale requirements.
- iv. Vet all investor buyers of REO properties, and those who control their investing actions as follows:
 1. Require that all buyers are registered as corporations both in their home state and in Ohio.
 2. Disqualify investors who have a track record of a) ignoring local code enforcement summons and b) failing to pay court-imposed fines.
 3. Disqualify investors who have delinquent property taxes on any of their properties.

c. **Background & Rationale:** The lender community and municipalities both have a shared, vested interest in stabilizing neighborhoods and preserving property values since for both groups, real estate is a significant asset. Declines in property values reduce the value of a lender's assets and erode a city's tax base. Both groups, therefore, have a shared interest in preventing unscrupulous buyers who seek to circumvent local and State laws from acquiring properties and negatively impacting housing values. In addition, lenders and servicers have an interest in avoiding transactions with unscrupulous buyers because it can significantly affect their reputational capital.

6. **Prevention of Walk-Aways**

a. **Goal:** Prevent an increase in abandoned properties.

b. **Recommendation:** Stop all 'walk-aways' and continue efforts to transfer title to a third-party by using the sheriff's sale process, or other responsible transfer approach on all REO properties.

c. **Background & Rationale:** When a foreclosure plaintiff abandons the litigation, the property is left in a legal limbo, further delaying its return to productive use. These properties are essentially abandoned properties which cause neighborhood blight, bring down property values, and further exacerbate the weaknesses in

the housing market. As such, this phenomenon negatively impacts the values of all other assets in the neighborhood, eroding a city's tax base and ultimately, the value of a lender's portfolio.