



The Default News™

May 2009

The Good Side of Foreclosures ... Is That an Oxymoron!

With all bad comes good. Could it be true? Can the many angry, depressed, worried people, who are greatly affected by the foreclosure tsunami, find restitution? Could there be people in the real estate, banking industry with a social conscious?

To those with doubt I say read on.

Companies that manage the mortgage default process are embracing Corporate Social Responsibility (CSR) practices. Basically that means they are transforming their business to be a good corporate citizen by looking beyond a single bottom line – Profit. Now they are considering a triple bottom line – people, the planet, and their profits.

According to Eric “Bubba” Mills, the REO operations manager of [Financial Asset Service](#) (FAS), “The reason is simple. Why cause any more problems.... Giving back to the community is the right thing to do”.

FAS is not alone. Companies like [Keystone Asset Management](#) and [National REO Brokers Association](#) have also incorporated CSR practices. That’s because when liquidating foreclosed properties the community is affected, and their needs must be considered.

For example, occupants need to be evicted. Vandalized properties need to be fixed. City officials need to be addressed. Abandoned animals need to be cared for, and properties need to be sold. Those are major challenges especially with an oversaturated housing market, high unemployment, and tight credit.

Mr. Mills stands in the front-line, facing all those foreclosure challenges. It’s his job to liquidate those dead assets for his clients, the lien holder. To be successful he must consider four key points-of-view; each vastly different from the other, yet each equally affected by foreclosures. They are: the homeowner (occupant), the municipalities (city officials), the silent victim (animals), and his clients.

To start with, he understands that the homeowner/occupant is in a very stressful situation, especially if children live in the home. They are usually angry and scared. Many times they don’t have money to move or to store personal belongings. If they owned the property, chances are great their FICO score dropped below 600, which makes it difficult to qualify for a new rental. Usually they are downsizing, which cause some people to abandon pets and to leave valuable personal property behind. Some leave peacefully; others take revenge by destroying the property or selling appliances, cabinetry, and piping.

With the homeowner/occupant, Mr. Mills considers these four important elements:

1. How can people be honorably evicted?
2. Would it be better to pay the occupant to leave?
3. What’s the best way to keep the occupant from damaging the property?
4. What is the best way to remove left-over trash, waste, and personal property?



From the municipality's point of view, Mr. Mills understands that foreclosures are very troubling for cities. They lower property values; they represent a negative economic environment; and they delay property tax revenues.

For example, a reduction in property tax revenue really hits a city hard. For some cities property tax is the most important financial resource. It could total 20% of their income, and if a state's foreclosure market is above the national average that could be devastating. In Nevada, for example, one out of every 70 homes is in foreclosure. That means 16,000 homes are not paying property taxes (source: RealtyTrac).

To make up for that lost revenue, cities charge lien holders for a variety of elements. In fact, Mr. Mills usually receives a dozen municipality fines each day. They could include: Housing code violations; Security for crack houses; Demolitions (this could cost \$8,000 to \$25,000); Property maintenance (this could cost up to \$1,000 a day); and Vacant Property Registration fees (this could cost \$100 - \$500).

With municipalities, Mr. Mills considers:

1. How to maintain the property without being fined?
2. What can he do to reduce crime in vacant property?
3. What can he do to keep property values from declining?
4. How can he best communicate with city officials?

As for animals, sad to say that thousands of animals are found abandoned in vacant, foreclosed property. All types of animals are potential victims: dogs, cats, birds, pigs, chickens, horses, etc.

With animals, Mr. Mills considers how to save their life vs. having them euthanized.

Lastly, Mr. Mills considers his client, the lien holder's point of view.

He realizes that the foreclosed property was their investment. Depending on the market and property condition, that investment might have declined up to 50%. For them, Mr. Mills considers how to liquidate their dead assets while getting the highest net return.

The above insight developed five goals; together they offer many good corporate citizen opportunities.

1. To quickly and honorably evict the occupants.
2. To keep property damage at a minimum.
3. To keep the property maintained without being fined.
4. To eliminate crime on a vacant property.
5. To effectively sell the property at its highest net value.

To honorably evict people, Mr. Mills has a *Cash for Keys* program. This will help them pay for relocation fees; that's if the property is left un-damaged and clean. *Cash for Keys* has proven to reduce property damage from angry evictees, and it's usually less expensive than repairing property damage. Also, it makes the move a more pleasant experience. For example, the money could help pay truck rentals, storage expenses, first/last monthly payments, or for pet deposits.



To support the community, reduce crime, and work with city officials Mr. Mills incorporated the following CSR options:

- FAS partnered with [No Paws Left Behind](#) (NPLB). This nationwide non-profit organization helps find no-kill shelters for abandoned animals. Plus, if the occupant can't pay for a pet deposit at their new apartment NPLB may help pay that fee.
- Mr. Mills also partnered with [Habitat for Humanity](#) (Habitat). This partnership enables FAS employees to volunteer their time to build a Habitat house. Plus, when personal property is found in an abandoned property, Habitat is offered first right to take the property and sell it at one of their retail stores. This partnership has three main benefits:
 - The property is recycled, reducing waste in landfills.
 - Habitat has additional income stream.
 - It reduces the lien holders cost to remove the property.
- Mr. Mills asks his agents to contact refurbishing shops to see if they take, repair, and sell broken appliances. This has a great benefit, especially when the recycle shop can properly dispose of a refrigerator's its toxic waste.
- Some foreclosed properties can be donated to a charity or city, especially if it was used as a community resource, For example, in Washington a Youth Shelter foreclosed. It housed kids coming out of jail where the kids develop job skills. Instead of taking a great cash offer, Mr. Mills worked with the lien holder to have the property donated to the city.
- One tremendous drain on a community is scrap-thieves. They increase crime, reduce property values, and decline city revenue. The repair costs can be more expensive property demolition. To stop this crime, Mr. Mills educates city officials and neighbor watch groups about the crime.
- FAS employees also attend property ordinances conferences. There they discussed vacancy property problems directly with city officials.

Lessons learned: do your due diligence. Mr. Mills said "There is fraud in every business. It's a hard reality". Recently, he donated a property to a non-profit organization which would use it as an alcohol recovery house. A few months after the property closed, he learned the founder fronted the organization to buy and flip properties for a profit.

Still, that experience doesn't stop FAS from being a good corporate citizen. In fact, here are Mr. Mills top 10 suggestions on how and why companies should pay it forward:

- Look at all options. CSR solutions can save you money.
 - The foreclosure process should be more personal.
 - Work with people who share the same ethics and morals.
 - Try to keep personal property out of landfill.
 - Good opportunities can come out of a bad situation.
 - Create a list of community-based organizations to help manage REOs.
 - Look at each property on a case-by-case basis.
 - Look at each community partner on a case-by-case basis. Beyond working with Habitat, FAS also supports:
 - Breast Cancer and Alzheimer organizations
 - Foundations and scholarships funding
 - The community partner does not have to be a 501 (c)3, non-profit organization.
- Don't incorporate CSR to just receive positive public exposure. That's a nice benefit, but the true reward comes from knowing you are part of the solution and not the problem.



Must we bribe you to incorporate CSR? Okay. Consider this...

You could generate revenue by incorporating CSR practices. Each week 50-60 new REO listing agents register with FAS. Mr. Mills pointed out that if each agent was equally qualified, the one who shared FAS' virtues, morals, and community support would receive more consideration. This rule applies to all potential partners.

Companies should be clear on how they incorporate CSR, and here are some thought provoking ideas to get you started:

Trade associations could:

- Donate money from each member's dues to a non-profit. Then promote their partnership through marketing materials and annual events.
- Work with local, regional, and national charities and government agencies to help educate people on how to repair their credit and buy foreclosed properties.
- Educate their members on how to be socially conscious with foreclosed property. This can be done through newsletters, e-mails, webinars, podcast, social marketing, and trade associations.

Agents and vendors could:

- Utilize environmentally positive means to remove waste.
- Generate a list their socially responsible partners
- Document all animals they saved (sharing pictures of saved animals offer a great emotional touch).
- Define how they positively assist occupants with their eviction and move.
- Detail how they work with city and community groups to reduce crime and vandalism.

Property preservation companies could define their environmental preservation methods

Asset management companies could:

- Donate donated foreclosed property to a charity.
- Educate their agents and vendors on how to be socially conscious with foreclosed property. This can be done through newsletters, e-mails, webinars, podcast, social marketing, and trade associations.

One last thought – though companies like FAS, Keystone, and NRBA are not responsible for foreclosures — isn't it nice to see how these leaders take responsibility for cleaning up the mess? What would happen if the entire the mortgage default business sector became a good corporate citizen?

- We'd see less waste in our landfills.
- Animals would get a second chance at life.
- Homeowners might begin trusting people in the lending and real estate industries once again.

That'd be nice.

To learn more about CSR, here are three resources:

- [Business For Social Responsibility](#)
- [Triple Bottom Line Explained](#)
- [Global Reporting](#)

It's better to light a candle than curse the darkness... an old Chinese proverb