

Feds to sell off delinquent loans, aiding South Florida borrowers in foreclosure

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Thousands of South Florida borrowers in foreclosure and ineligible for a loan modification may get another chance to save their home in an expanded Federal Housing Administration program announced Friday.

Beginning in September, defaulted loans insured by the FHA will be sold in discounted pools to private investors who have more flexibility in negotiating lower mortgage payments, reducing loan amounts or offering other options such as rent-to-own.

The investors, which can include non-profit community agencies, must delay foreclosure proceedings for at least six months while working with the homeowner.

Florida has about 366,650 loans insured by FHA, according to a first quarter report from the Mortgage Bankers Association. Of those, 15 percent are in foreclosure or 90 days or more late on payments.

Nationwide, FHA insures about 6.7 million loans, 9 percent of which are in foreclosure or seriously delinquent.

“This will be another chance, another lifeline that they weren’t expecting,” said Shaun Donovan, U.S. Housing and Urban Development secretary. “There might be a set of options that arrives on their doorstep that is the best news they’ve ever heard.”

The program, called the Distressed Asset Stabilization Program, was announced during the two-day Clinton Global Initiative America Meeting in Chicago.

The FHA began a test of the program in 2010 and has since sold more than 2,100 single-family loans to new servicers.

About 5,000 defaulted mortgages are expected to be sold every quarter under the expanded program, which also makes buyers agree not to resell for three years at least half of the homes they buy.

Florida International University real estate economist Ken H. Johnson said the sale is a gamble on the part of buyers and the FHA.

“The only way the FHA can get rid of these products is if they sell at significant, dramatic losses,” he said. “They have to make the loss big enough that someone is willing to take the chance in this market and right now, and I’m not sure who that is.”

To be eligible for sale through the program, the loan must be at least six months delinquent and in foreclosure. The borrower cannot be in bankruptcy and must be ineligible for FHA-offered modification programs.

Acting FHA Commissioner Carol Galante said although the administration’s inventory of repossessed homes for sale is at its lowest level since 2009, the number of homeowners seriously late on payments is at an all-time high.

“This will be a hybrid of people who know how to service mortgages and work with homeowners to get their loans performing again,” Galante said about prospective buyers of the loans.

The loans will be sold on a nationwide basis, but also in groups in communities hit hardest by the real estate crash. Galante didn’t specify which areas will be targeted, but said they will release more specifics soon.

Florida ranked fourth nationwide in March for the number of homes in foreclosure, according to RealtyTrac.