If proceedings stop, so will market recovery

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Although drywall is flying at a gutted-to-the-studs house we bought in White Lake Township, Mich., we may soon learn that our closing and cleared check were all for naught. The homes that we buy as entrepreneurs with the intention of rehabilitating metro Detroit one residence at a time may slip away if banks decide they made even a tiny error in the foreclosure process.

In the wake of Ally Financial's announcement that employees might have rubber-stamped foreclosures without following protocols exactly, many industry and political leaders are arguing for a moratorium on foreclosure sales nationwide. As if we weren't in dire enough straits to begin with.

For 18 months, foreclosure rates have exceeded all records; in August, distressed homes comprised 34 percent of all existing homes sold in America, according to National Association of Realtors statistics. In this year's second quarter, 24 percent of home sales were foreclosed homes, "the kind of volume we need to see for the market to heal," says RealtyTrac Senior Vice President Rick Sharga. That's not going to happen if foreclosure sales stop.

The nation's top three mortgage-servicing banks have voluntarily halted foreclosure sales, including in-the-process transactions on the cusp of closing. And now, title insurers are chiming in, saying they can't possibly insure any homes foreclosed by these banks. Banks don't give mortgages on houses whose titles can't be insured.
We are in deep trouble.

Buyers might end up on street

These questions of details and rules are the crack that will break open the floodgates. If banks find foreclosure processes weren't followed strictly, then what? Will the previous owner, who willfully didn't pay his mortgage, reinhabit the home he abandoned, miraculously start paying and oh, by the way, repair and rebuild the house that's been vacant for a year and a half?

New owners of foreclosed homes, who rebuild not only their own properties but also the surrounding community, might find themselves forced onto the street with no returned check. Brokers will lose hard-earned commissions.

With no foreclosures on the market, sure, home prices will rise, but without appropriate appraisals to substantiate those increased values, nothing will qualify for financing. Even people trying to buy

non-foreclosed homes will find themselves up against a financing wall.
It’s mind-numbing, but this fits with the continued apathy regarding holding anyone responsible.

It used to be that if a person could no longer afford his home, for whatever reason, he lost it. You don’t pay, you don’t stay. Isn’t it time to hold someone responsible?

Some banks may have made a mistake in process. Is that reason enough to freeze our economic foundation while policy wonks debate the “how” rather than the “why”?

Ultimately, the question should be: Why are we spending so much time helping those who didn’t, wouldn’t or couldn’t pay their mortgages?

If you bite off more than you can chew, you choke. But if you don’t have anything to eat, you starve — and eventually, you die.

Every step the government has taken in the past two years to try to help homeowners has resulted in utter failure, with more foreclosed properties than ever in our nation’s history. That was only child’s play, apparently.

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