

## The Savage Truth on Money: Three faces of foreclosure

by Terry\_Savage

Every day, more than 100 Chicago-area homeowners receive a foreclosure notice. It's an epidemic that is accelerating, with the impact spreading through all neighborhoods — from inner city to middle class to wealthy suburbs.

Some of those foreclosures are on empty condos or subdivision houses, where "flipping" real estate seemed to be the sure road to riches only two years ago. But the vast majority of foreclosures hit young families, middle-age couples, or first-time homebuyers — all in shock at losing their piece of the American Dream.

Some point the finger at "greedy speculators" who hoped to make a quick profit in the housing boom. Others blame mortgage brokers, who made big bucks offering quirky, adjustable-rate mortgages. Some blame the banks, which were quick to make those loans but can't be reached on the phone now that borrowers are falling behind.

The Savage Truth: It's time to stop blaming and start acting sensibly. If we don't, the foreclosure crisis will forever change America.

I spent last week with three families whose individual stories you can read about on my website, [www.terrysavage.com](http://www.terrysavage.com). None was a real estate speculator. All three desperately wanted to keep their homes and were willing to make any sacrifice to do so. And all three were trapped in a system that found no way to assess their circumstances.

One family avoided communication, out of fear. Another took on the system — and won. A third tried to make sense of an irrational policy that told them to fall behind so they could get ahead!

All were caught in an unfeeling and irrational bureaucracy, which is unable to deal with this tsunami of

tragedy. This is what's really wrong:

â€” Bureaucratic confusion. Government programs sound inspiring but don't work in the trenches of the lenders' and servicers' loan-modification departments. There simply isn't an understanding of the rules â€” even for the older programs, much less the latest foreclosure-prevention plan. And there aren't enough trained people empowered to make sensible decisions in real time.

Economic disincentives. There are disincentives for the lender to act on behalf of the homeowner! First, it's easier and cheaper to just turn the package over to the foreclosure attorneys, whose business is booming. That gets the loan written off, and the banks can move forward. (And it takes less time for bank employees!) Second, since many of those loans carried PMI insurance, which protects the lender, the lenders aren't worried about taking losses at foreclosure sales. Perhaps the \$1,000 modification incentives under the latest plan will offset the current financial disincentives for banks to modify loans.

Shifting burdens. When a foreclosure takes place, the family must move. The real problem is: They have nowhere to go! The number of homeless families is on the rise â€” shifting the housing burden to taxpayers. Meanwhile, foreclosure sales leave empty houses in nice neighborhoods â€” an invitation to vandalism and destruction of all property values.

There has been a lot of discussion in recent months about who "deserves" this fate of foreclosure. But who will be the judge? And if this recession continues, how likely is it that more unsuspecting homeowners â€” maybe even some in your family or neighborhood â€” will be caught in this sinkhole?

I'm a true believer in free markets. But the free market in housing was destroyed long ago â€” when Congress pushed banks to make loans to people who were not qualified, and forced Fannie and Freddie to underwrite questionable mortgages, and when the Fed kept interest rates artificially low to encourage the real estate bubble.

All of those actions kept the housing boom going. And kept getting Congress re-elected.

It's time for Washington to stop blaming lenders, and borrowers, and everyone but themselves. And it's way past time to set up a sensible system that at least has a goal of keeping people in those homes until the economy turns around. And that's The Savage Truth.

Terry Savage is a registered investment adviser and is on the board of the Chicago Mercantile Exchange. She appears weekly on WMAQ-Channel 5's 4:30 p.m. newscast. Her new book, "The Savage Number: How Much Money Do You Make?" has just been published.

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