Contra Costa Times Editorial:

Richmond's mortgage seizure plan not ready for prime time

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It would be easy to dismiss as kooky Richmond's untested plan to save some homeowners from foreclosure by seizing their mortgages from lenders through eminent domain.

That was our first reaction. We dislike government using a heavy hand to take any type of property absent a very compelling reason. But it might be justified in this instance.

Thus far, however, Richmond hasn't made the case that this program will help the way it's intended. Officials must do much more homework first.

They understandably want to help homeowners who owe more than their properties are worth. Unless their loan balances are reduced, many are likely to walk away. That leads to abandoned homes in already struggling neighborhoods.

The city does not plan to target most underwater mortgages. For many homeowners, there are already programs to help. What's at issue is a small segment who have good credit, are current on their payments and, most significantly, have mortgages that were pooled and resold to investors in bond offerings.

Supporters of the eminent domain plan say that these homeowners struggle to refinance because it's unclear who speaks for the investors. Each owns only a fraction of the note.

The securities industry counters that trustees for these pools have been just as cooperative as banks and other institutional lenders when borrowers seek to renegotiate.

Objective data is needed to resolve the disparate views. The city should only consider moving forward if these borrowers actually face disproportionate problems obtaining principal reductions.

Then there are the details. The city plan calls for seizing the loans, with the homeowners' consent, through eminent domain. The city would partner with a firm called Mortgage Resolution Partners, run by Steven Gluckstern. MRP would raise money from new investors to pay off the market value of the loans and then issue new mortgages.

Consider, for example, a $200,000 home with a $300,000 mortgage. The resale value of that mortgage is a lot less than $300,000 because of the likelihood the borrower will default. Gluckstern says the value is about $160,000, or 80 percent of the home's value. The finance industry says that's much too deep a discount.
Under the plan, the city would seize the loan, the original investors would be paid the $160,000 and homeowners would then owe MRP $190,000. Of the $30,000 profit, Gluckstern's investors would pocket $10,000; $10,000 would go to expenses, including Gluckstern's $4,500 fee; and $10,000 would go to the city.

This scheme benefits Gluckstern's investors at the expense of the original investors. That's troubling and legally untested. And it could leave lenders leery of doing business in Richmond. That helps explain why other cities that looked at the program balked.

Before Richmond proceeds, it must demonstrate that homeowners with pooled mortgages have a harder time refinancing. Then it must refine the program to be fair to all parties.