

# **FORECLOSURES: ECONOMIC, LEGAL & SOCIAL IMPACT**

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# OVERVIEW

- The Billion Dollar Business Model
- Economics
- Legal Issues
- Social Impact (neighborhoods )
- Approaches That Work



## “THE BILLION DOLLAR BUSINESS MODEL: Economics of the Flawed Delivery System”

- **Business Model** - Create a system that provides bundled services (financing with developer)
- **Niche Market** - capture market share (house to house)
- **Product** - Must be a no hassle and automatically result in repeat transactions. Loans must provide low payments, simple terms
- **Fee Structure** - Charge high fees; build in a system that encourages consumers to avoid traditional delivery systems.



## “THE BILLION DOLLAR BUSINESS MODEL”

- **Contract** – Prevent consumer disputes and cancellations
- **Service Model** - Decision science must be used. Study the 'culture and weaknesses of your market'. This will allow you to predict behavior .
- **Final Note** - Offer customer service that is friendlier than any local church on Sunday morning. Exploit deficiencies in the system. Look for communities with low cash flow and no familiarity with delivery system .

**Create this environment and you too can be rich.**



# FACTS

- New areas targeted
- Good credit/bad loan: 620+ score; can afford home - 85%
- Good credit / bad loan: 620+; can't afford home - 7%
- Bad credit / bad loan: <600; can afford - 5%
- Bad credit / bad loan: <600; cannot afford - 3%



## LOCAL ECONOMIC SNAPSHOT

- A low income person lives on \$29 a day (including food, child care, housing, transportation)
- 28% housing; 23% childcare; 14% food; 9% transportation; health care 7%
- 57.3% of all jobs pay less than minimum wage
- 87% of growing occupations pay less than minimum
- 4 out of 5 low income families use pay day loans to supplement their income..





# SOCIAL ISSUES

- ❑ Large Segment Lack Access to Capital
- ❑ Availability of credit limited
- ❑ Cookie Cutter Products Ineffective
- ❑ Service Matters
- ❑ Low income consumers didn't crash the market





## LEGAL ISSUES: DELINQUENCY VS. FORECLOSURE



- ❑ Delinquency (no product issues) represent less than 10% of people in foreclosure
- ❑ Default
- ❑ Foreclosure (speed of notice jurisdictions)
- ❑ Innocent Renter
- ❑ Holder of paper (lender, servicer, investor, PMI)
- ❑ Programs with no understanding of the process has hurt consumers





## SOCIAL /ECONOMIC IMPACT



- New neighborhoods empty
- Non-cohesive political approach
- State vs. Federal
- No new resources to serve consumers



## “COMPETITIVE BUSINESS MODEL SOLUTION”

- **Business Model** - Create a system that provides mainstream access to credit
- **Niche Market** - Change community messaging
- **Product** - Create new scaled products that address individual markets





## “COMPETITIVE BUSINESS MODEL SOLUTION”

- **Fee Structure** – Fair cost for fair service
- **Contracts** – Update laws; prevent unfair practices in delivery system
- **Service Model** – Non-profit service providers must participate in the process/ know the community / influence solutions



## OTHER SOLUTIONS

- Public Policy Incentives – Asset Accumulation
- Holistic Client Based Direct Services